Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
actuary_st@leg.wa.gov

Executive Committee

November 15, 2005
Immediately Following the Full Committee
House Hearing Room C
Olympia

AGENDA

Approximate Times		
2:00 PM	**(A)**	**Approval of Minutes**
2:05 PM	**(B)**	**Direction on Day's Full Agenda**
2:30 PM	**(C)**	**December Committee Meeting** • Meeting Planner • 2006 Interim Schedule/Subgroup Schedule
3:30 PM	**(D)**	**Coordination with LEOFF 2 Board** • Service Credit Purchase for Injury • Dual Membership
3:45 PM	**(E)**	**Judges Benefit Multiplier** - Robert Wm. Baker, Senior Research Analyst
4:00 PM	**(F)**	**USERRA Compliance** - DRS Report
4:15 PM	**(G)**	**PSERS Eligibility** - Robert Wm. Baker
4:30 PM	**(H)**	**Constituent Correspondence**
4:45 PM	**(I)**	**Actuary Evaluation**
5:00 PM	**(J)**	**Adjourn**

Persons with disabilities needing auxiliary aids or services for purposes of attending or participating in Select Committee on Pension Policy meetings should call (360) 753-9144. TDD 1-800-635-9993.

(360) 786-6140
Fax: (360) 586-8135
TDD: 1-800-635-9993

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EXECUTIVE COMMITTEE
DRAFT MINUTES

October 18, 2005

The Select Committee on Pension Policy met in House Hearing Room C, Olympia, Washington on October 18, 2005.

Committee members attending:

Representative Fromhold, Chair	Leland Goeke
Elaine Banks	Robert Keller
Representative Conway	Sandra Matheson
Representative Crouse	Glenn Olson
Senator Fraser	

Representative Fromhold called the meeting to order at 2:00 PM.

Representative Fromhold reviewed the correspondence from Senator Mulliken and stated that some changes may be made in staff procedures.

(A) Approval of Minutes

It was moved to approve the September 27, 2005 minutes.
Seconded.

MOTION CARRIED

(B) Direction on Day's Full Agenda

Matt Smith, State Actuary, reviewed the issues on the "Direction on Day's Full Agenda." Discussion followed.

(C) November Committee Meeting

Matt Smith, State Actuary, reviewed the "November 15 Meeting Planner." Discussion followed.

(D) Service Credit Purchases

Laura Harper, Senior Research Analyst - legal, reviewed the "Service Credit Purchase Draft Bill Sectional." Staff was instructed to draft legislation and schedule for the November 15, 2005 Full Committee Public Hearing/Possible Executive Session.

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(E) Judges Benefit Multiplier

Bob Baker, Senior Research Analyst, presented a report on "Judges Benefit Multiplier." Discussion followed.

(F) Executive Committee Direction

- **Age 70 1/2 and Opt In/Opt Out**

  It was moved to forward HB 1318 to the November 15th Full Committee Public Hearing/Possible Executive Session. Seconded.

  MOTION CARRIED

- **LEOFF 1 Benefit Cap**

  It was moved than an updated bill draft of HB 1873/SB 5901 be prepared and forwarded to the November 15th Full Committee Public Hearing/Possible Executive Session. Seconded.

  MOTION CARRIED

(G) Constituent Correspondence

Matt Smith, State Actuary, informed the members of a PSERS pension hearing held in Walla Walla, Washington that was hosted by Representative Fromhold and Representative Crouse.
Mike Ryherd, Teamsters, also spoke on the PSERS pension hearing.

Public Testimony

Kelly Fox, Washington State Council of Firefighters

The meeting adjourned at 3:40 PM.

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Select Committee on Pension Policy

Direction on Today's Agenda

(October 25, 2005)

Item #		**Next Steps/ Add to Month/ WorkPlan**
(4)	**Gain-sharing Subgroup Report and Recommendations** *Staff instructions:*	
(5)	**Public Safety Subgroup Report and Recommendations** *Staff instructions:*	
(6)	**Plan 1 Unfunded Liability Subgroup Report and Recommendations** *Staff instructions:*	
(7)	**Service Credit Purchase** *Staff instructions:* Gather signatures if necessary. Identify prime sponsors.	
(8)	**Age 70 1/2 and Opt-In/Opt-Out** *Staff instructions:* Special instructions for re-endorsed proposal?	

(9) LEOFF 1 Benefit Cap

Staff instructions:

Gather signatures if necessary. Identify prime sponsors.

Select Committee on Pension Policy

December 13 – Meeting Planner

(November 3, 2005)

EXECUTIVE COMMITTEE AGENDA - 9:00-10:00 AM

(A) Gain-sharing subgroup recommendation

(B) Full committee agenda

FULL COMMITTEE AGENDA

(1) Post-retirement employment

(2) Plan 1 unfunded liability

(3) PSERS eligibility

(4) Gain-sharing

(5) Public Safety / WSP issues

(6) USERRA compliance

(7) Judges benefit multiplier

(8) Service credit purchase for injury (LEOFF 2 Board)

(9) Dual membership (LEOFF 2 Board)

(10) 2006 meeting dates

EXECUTIVE COMMITTEE AGENDA - PM

(A) Directions on day's Full agenda

(B) Possible Session Meeting/Update

(C) Constituent correspondence

(D) Actuary evaluation

Select Committee on Pension Policy
2005 Work Plan

(November 3, 2005)

June 21, 2005
✓Election of officers
✓Rules of procedure
✓2005 meeting dates
✓Session update
✓2005 work plan
✓2005 mandatory studies - background

July 19, 2005
✓LEOFF 1 benefit cap - background/options
✓Postretirement employment - options preview
✓Plan 1 unfunded liability - background/options
✓PSERS eligibility - background

August 23, 2005
✓SCPP goals
✓Gain-sharing subgroup report
✓Plan 1 unfunded liability - options
✓Disability retirement - background
✓TRS out-of-state service credit
✓Age 70 ½ and opt in/opt out
✓Plan 3 vesting

September 27, 2005
✓USERRA compliance update - DRS report
✓Judges benefit multiplier - background/options
✓Service credit purchases - background
✓PSERS eligibility - DRS report
✓LEOFF 1 benefit cap - options

Other Items
✓Reports to legislative fiscal committees - during legislative assembly

Subgroups:
Gain-sharing
Public safety/WSP
Plan 1 unfunded liability

October 18, 2005
✓Revised SCPP goals
✓Plan 1 unfunded liability subgroup report
✓Disability retirement - background
✓Accounting for post-retirement medical benefits
✓Medicare Part D briefing
✓TRS out-of-state service credit
✓Plan 3 vesting

November 15, 2005
OSA retire-rehire study - report
2004 actuarial valuation report
Gain-sharing subgroup report and recommendations
Public safety subgroup report and recommendations
Plan 1 unfunded liability subgroup report and recommendations
Service credit purchase
Age 70 1/2 and opt-in/opt-out
LEOFF 1 benefit cap

December 13, 2005
Post-retirement employment
Plan 1 unfunded liability
PSERS eligibility
Gain-sharing
Public Safety / WSP issues
USERRA compliance
Judges benefit multiplier
Service credit purchase for injury (LEOFF 2 Board)
Dual membership (LEOFF 2 Board)
2006 meeting dates

January 2006
Possible session update (pension bills)

2006

January

S	M	T	W	T	F	S
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March

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Notes

Holidays	
Possible **SCPP – *third Tuesday*** of each month **8 am -5 pm** Possible **Subgroup 2** – *third Tuesday* of each month ***before or after*** scheduled mtg Possible **Subgroup 1** – ***3rd Monday*** of each month **2-4 pm**	**To be determined:** **JLARC –** typical date, tentative only **SIB –** typical date, tentative only
January - 1st day of session **March** – scheduled last day of session (60 calendar days)	
LEOFF 2 Board Mtgs – typical date, tentative only	

April

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2006

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September

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Notes

Holidays

Possible **SCPP – *third Tuesday*** of each month **8 am -5 pm**
Possible **Subgroup 2** – *third Tuesday* of each month ***before or after*** scheduled mtg
Possible **Subgroup 1** – ***3rd Monday*** of each month **2-4 pm**

To be determined:

JLARC – typical date, tentative only

SIB – typical date, tentative only

August – NCSL (Nashville)

General Election: held on the Tuesday after the first Monday in **November**

LEOFF 2 Board Mtgs – typical date, tentative only

September – Primary, Committee Days

December – Committee Days

October

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November

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December

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Service Credit Purchase for Injury

Initial Consideration – Follow Up

October 26, 2005

1. Issue

During the June meeting of the Select Committee on Pension Policy there was discussion of extending to other plans, the policy from Senate Bill 5522 (2005), which increased the period of service credit that could be purchased by an employee who is on a leave of absence for an injury on the job.

2. Staff

Tim Valencia, Senior Research and Policy Manager
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3. Members Impacted

Any active LEOFF Plan 2 member who is injured on the job may be affected. As of September 30, 2003 there were 14,560 active members as reported in *The Office of the State Actuary's 2003 LEOFF 2 Actuarial Valuation Report.*

4. Current Situation

The purchase of service credit for periods of temporary leave for a disability is accomplished through a two part process for LEOFF Plan 2 members. A member who is receiving a leave supplement or similar benefit can purchase service credit for a period up to 6 months through the provisions of temporary duty disability. A member may purchase service credit for periods of leave beyond the 6 months through the provisions of authorized leave of absence.

5. Background Information and Policy Issues

The Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), School Employees' Retirement System (SERS), Washington State Patrol Retirement System (WSPRS) and the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) provide retirement benefits to most Washington State and local government employees. Except for TRS, each of these systems include provisions for Plan 2 members to purchase service credit for periods of temporary leave related to a disability resulting from an injury on the job, commonly referred to as "Temporary Duty Disability" or "TDD". Each plan determines its requirements to complete such a purchase.

Under the current LEOFF Plan 2 provisions, some members may not be entitled to purchase service credit utilizing the temporary duty disability provisions because of the eligibility restrictions and service credit purchase limit. When compared to most other Plan 2 systems, LEOFF Plan 2 has stricter eligibility requirements and a lower service credit purchase limit. Members not qualified to purchase service credit under temporary duty disability provisions may purchase the service credit under authorized leave of absence provisions, which are more costly to the member.

The first section of this report provides a description of the temporary duty disability provisions in LEOFF Plan 2 and is followed by a comparison to other Washington Plan 2 systems in the second section. The third section provides a description of the authorized leave of absence service credit purchase provisions. Following the third section, Appendix A, provides a comparison table which summarizes the temporary duty disability and authorized leave of absence provisions in each of the Plan 2 systems.

Temporary Duty Disability – LEOFF Plan 2

If a member does not earn full service credit because of leave associated with a temporary duty disability, a member may have the option to purchase up to six months of service credit for each covered duty disability. To be eligible to purchase service credit for temporary duty disability, the member must be receiving a disability leave supplement or similar benefits provided by their employer and the disability must have occurred in the line of duty.

If a member's employer does not provide a disability leave supplement or similar benefits, the member is ineligible to purchase service credit under temporary duty disability provisions. A disability leave supplement must be provided by an employer if the employee is receiving temporary total disability benefits under Title 51 unless the employer is a city or town with a population of less than twenty-five hundred or a county with a population of less than ten thousand. If the member is not eligible under temporary duty disability, the member may be eligible to purchase the service credit under the authorized leave of absence provisions.

The member is responsible for payment of the employee contributions and the employer is responsible for payment of the employer contributions. Recovery interest is not charged on

LEOFF Plan 2 temporary duty disability billings. The purchase cost is based on the compensation the member would have earned had the member been working. While there is no statutory deadline for requests to purchase service credit for temporary duty disability, full payment for the purchase must be received prior to retirement.

The purchased service credit is includable in a member's service credit summary for retirement eligibility and pension computation purposes. The compensation information used to compute the cost of the purchase is includable within the Final Average Salary calculation.

Temporary Duty Disability in Other Washington Systems

Except for TRS Plan 2, all of the Plan 2 systems have a provision allowing for the purchase of temporary duty disability. While the basic provisions in each plan are similar, there are a couple of notable differences.

One difference is the amount of service credit that can be purchased for each incident of temporary duty disability. The table below shows the limits for each of the Plan 2 systems:

Plan	Purchase Limit
WSPRS Plan 2	No limit
PERS Plan 2	24 months per incident
SERS Plan 2	12 months per incident
TRS Plan 2	No TDD provision
LEOFF Plan 2	6 months per incident

Senate Bill 5522, passed by the 2005 Legislature, expanded the service credit purchase for temporary duty disability in PERS. Prior to Senate Bill 5522, members of PERS could only purchase up to 12 months of service credit for temporary duty disability. Senate Bill 5522, increased the period of unearned service credit that a member of PERS could purchase from 12 months to 24 months, doubling the per incident amount of service credit. During the June meeting of the Select Committee on Pension Policy, there was discussion of extending the policy from SB 5522 (2005) to other plans.

The second key difference between the LEOFF Plan 2 temporary duty disability and other Plan 2 temporary duty disability provisions is the eligibility criteria for a temporary duty disability purchase. In PERS and SERS, a person is eligible to purchase service credit for temporary duty disability if they are receiving benefits under Title 51 RCW or a similar federal workers' compensation program. In WSPRS, a member must be relieved from duty by the Chief of Washington State Patrol for an injury on the job. In LEOFF Plan 2, a person must be receiving a disability leave supplement or similar benefits provided by their employer. As noted above, some cities and counties may not be required to provide a disability leave supplement, which means that a period of leave for an uncovered member could only be purchased through authorized leave of absence provisions.

Temporary Duty Disability in Comparison Systems

The comparison systems treat temporary duty disabilities in one of three ways. The comparison system either provides a process for keeping the member's account whole by allowing some form of service credit purchase, the comparison system pays out benefits during the period of disability and the member cannot recover the period of service, or there are no benefits extended for temporary leave of absence related to an on the job injury.

Out of the twelve comparison systems, seven systems provide for the recovery of lost service credit through some sort of purchase mechanism. Among these seven systems that allow for the recovery of service credit, two allow the recovery of five years, two allow the recovery of two years, one allows the recovery of one year, and two have no limit on the amount of service that can be recovered.

In the remaining comparison systems, three provide disability benefits payments and two systems do not provide any benefits. See Appendix C.

Authorized Leave of Absence

If a member is not eligible to purchase a period of service credit under temporary duty disability provisions, the member may purchase the service under authorized leave of absence provisions. This could occur for a LEOFF Plan 2 member if they were not receiving a disability leave supplement or if the temporary duty disability period exceeded the 6-month temporary duty disability purchase limit. The following key provisions apply to all of the Plan 2 systems, except WSPRS Plan 2 which does not have an authorized leave of absence provision.

A member may request to purchase service after returning to work from an authorized leave of absence. Requests for recovery of service credit and payment must be received within five years from the initial date of return to work, or prior to retirement, whichever occurs first.

A member is only allowed to purchase a maximum of twenty-four months of service credit for an authorized leave of absence during his or her entire working career.

The member is responsible for payment of both the employee and employer contributions, plus applicable interest. This makes an authorized leave of absence service credit purchase more expensive than a temporary duty disability service credit purchase. The purchase cost is based on the average of the member's compensation earnable at the time the authorized leave was granted, and the time the member resumed employment.

The purchased service credit is includable in a member's service credit summary for retirement eligibility and pension computation purposes. The compensation information used to compute the cost of the purchase is not includable within the Final Average Salary calculation.

6. Policy Options

Option 1: Adopt policy from Senate Bill 5522 (2005)

Adopting the policy from Senate Bill 5522, passed in 2005 for the Public Employees' Retirement System (PERS) would make two changes to the current LEOFF Plan 2 policy. First, the new policy would increase the per incident amount of service credit a member could purchase, for absence from an injury incurred in the line of duty, from 6 months to 24 months. Second, the new policy would change the eligibility requirement from receiving a leave supplement from an employer to receiving benefits under state workers' compensation (Title 51 RCW) or a similar federal workers' compensation program.

These changes would create consistency with the PERS policy established in 2005, allows the purchase of a longer period of service for LEOFF Plan 2 members, and eliminates the possibility that a member will not qualify to purchase such service credit due to working for an employer that does not provide a leave supplement.

7. Supporting Information

- **Appendix A**: Temporary Duty Disability & Authorized Leave of Absence Comparison
- **Appendix B**: Leave Supplement Statutes
- **Appendix C:** Temporary Duty Disability Provisions in Comparison Systems

Appendix A: Temporary Duty Disability & Authorized Leave of Absence Comparisons

Temporary Duty Disability Comparison

Plan	Eligibility	Purchase Limits	Computation	Payment	Include In FAS
LEOFF Plan 2	Receiving a disability leave supplement or similar benefits provided by their employer	6 months for each time-loss incident	Based on regular compensation member would have earned	Member pays member contributions through employer Employer pays employer contributions. State pays state contributions	Yes
PERS Plan 2	Receiving benefits under Title 51 RCW or a similar federal workers' compensation program	24 months for each time-loss incident	Based on regular compensation member would have earned	Member pays member contributions plus interest Employer pays employer contributions plus interest	Yes
SERS Plan 2	Receiving benefits under Title 51 RCW or a similar federal workers' compensation program	12 months for each time-loss incident	Based on regular compensation member would have earned	Member pays member contributions plus interest Employer pays employer contributions plus interest	Yes
TRS Plan 2	No temporary duty disability provision	NA	NA	NA	NA
WSPRS Plan 2	Relieved from duty by the Chief of Washington State Patrol for an injury on the job	No statutory limit	Based on regular compensation member would have earned	Member pays member contributions plus interest Employer pays employer contributions plus interest	Yes

Authorized Leave of Absence Comparison

System	Eligibility	Purchase Limits	Cost Computation	Payment	Include In FAS
LEOFF Plan 2	Return to work in an eligible position following unpaid authorized leave of absence Deadline: 5 years from return to employment	24 months in a working career	Based on average of compensation earnable at the time leave granted and the time employment resumed	Member pays member, employer, and state contributions, plus interest	No
PERS Plan 2	Return to work in an eligible position following unpaid authorized leave of absence Deadline: 5 years from return to employment	24 months in a working career	Based on average of compensation earnable at the time leave granted and the time employment resumed	Member pays both member and employer contributions, plus interest	No
SERS Plan 2	Return to work in an eligible position following unpaid authorized leave of absence Deadline: 5 years from return to employment	24 months in a working career	Based on average of compensation earnable at the time leave granted and the time employment resumed	Member pays both member and employer contributions, plus interest	No
TRS Plan 2	Return to work in an eligible position following unpaid authorized leave of absence Deadline: 5 years from return to employment	24 months in a working career	Based on average of compensation earnable at the time leave granted and the time employment resumed	Member pays both member and employer contributions, plus interest	No
WSPRS Plan 2	No authorized leave of absence provision	NA	NA	NA	NA

Appendix B: Leave Supplement Statutes

RCW 41.04.500 **Disability leave supplement for law enforcement officers and fire fighters.**	County, municipal, and political subdivision employers of full-time, commissioned law enforcement officers and full-time, paid fire fighters shall provide a disability leave supplement to such employees who qualify for payments under RCW 51.32.090 due to a temporary total disability.
RCW 41.04.505 **Disability leave supplement for law enforcement officers and fire fighters -- Amount.**	The disability leave supplement shall be an amount which, when added to the amount payable under RCW 51.32.090 will result in the employee receiving the same pay he or she would have received for full time active service, taking into account that industrial insurance payments are not subject to federal income or social security taxes.
RCW 41.04.510 **Disability leave supplement for law enforcement officers and fire fighters -- Payment.**	The disability leave supplement shall be paid as follows: (1) The disability leave supplement shall begin on the sixth calendar day from the date of the injury or illness which entitles the employee to benefits under RCW 51.32.090. For the purposes of this section, the day of injury shall constitute the first calendar day. (2) One-half of the amount of the supplement as defined in RCW 41.04.505 shall be charged against the accrued paid leave of the employee. In computing such charge, the employer shall convert accumulated days, or other time units as the case may be, to a money equivalent based on the base monthly salary of the employee at the time of the injury or illness. "Base monthly salary" for the purposes of this section means the amount earned by the employee before any voluntary or involuntary payroll deductions, and not including overtime pay. (3) One-half of the amount of the supplement as defined in RCW 41.04.505 shall be paid by the employer. If an employee has no accrued paid leave at the time of an injury or illness which entitles him to benefits under RCW 51.32.090, or if accrued paid leave is exhausted during the period of disability, the employee shall receive only that portion of the disability leave supplement prescribed by subsection (3) of this section.
RCW 41.04.515 **Disability leave supplement for law enforcement officers and fire fighters -- Time limitation.**	The disability leave supplement provided by RCW 41.04.500 through 41.04.530 shall continue as long as the employee is receiving benefits under RCW 51.32.090, up to a maximum of six months from the date of the injury or illness.

RCW 41.04.520 Disability leave supplement for law enforcement officers and fire fighters -- Employee to perform light duty tasks.	While an employee is receiving disability leave supplement, the employee, subject to the approval of his or her treating physician, shall perform light duty tasks in the employee's previous department as the employer may require, with no reduction in the disability leave supplement.
RCW 41.04.525 Disability leave supplement for law enforcement officers and fire fighters -- Continuation of employee insurance benefits.	The disability leave supplement provided in RCW 41.04.510(3) shall not be considered salary or wages for personal services: PROVIDED, That the employee shall also continue to receive all insurance benefits provided in whole or in part by the employer, notwithstanding the fact that some portion of the cost of those benefits is paid by the employee: PROVIDED FURTHER, That the portion of the cost not paid by the employer continues to be paid by the employee.
RCW 41.04.530 Disability leave supplement for law enforcement officers and fire fighters -- Exhaustion of accrued sick leave.	If an employee's accrued sick leave is exhausted during the period of disability, the employee may, for a period of two months following return to active service, draw prospectively upon sick leave the employee is expected to accumulate up to a maximum of three days or three work shifts, whichever is greater. Any sick leave drawn prospectively as provided in this section shall be charged against earned sick leave until such time as the employee has accrued the amount needed to restore the amount used. In the event an employee terminates active service without having restored the sick leave drawn prospectively, the employer shall deduct the actual cost of any payments made under this section from compensation or other money payable to the employee, or otherwise recover such payments.
RCW 41.04.535 Disability leave supplement for law enforcement officers and fire fighters -- Greater benefits not precluded.	Nothing in RCW 41.04.500 through 41.04.530 shall preclude employers of law enforcement officers and fire fighters and such employees from entering into agreements which provide benefits to employees which are greater than those prescribed by RCW 41.04.500 through 41.04.530, nor is there any intent by the legislature to alter or in any way affect any such agreements which may now exist.
RCW 41.04.540 Disability leave supplement for law enforcement officers and fire fighters -- Supplement not required in smaller cities, towns, and counties.	Cities and towns with a population of less than twenty-five hundred and counties with a population of less than ten thousand shall not be required to provide a disability leave supplement to their commissioned law enforcement officers and full-time paid fire fighters who qualify for payments pursuant to RCW 51.32.090, due to temporary total disability.

RCW 41.04.545 **Disability leave supplement for law enforcement officers and fire fighters -- Vested right not created.**	Chapter 462, Laws of 1985 neither grants employees a vested right to receive a disability leave supplement nor creates a contractual obligation on behalf of the state or its political subdivisions to provide a disability leave supplement.
RCW 41.04.550 **Disability leave supplement for law enforcement officers and fire fighters -- Not subject to interest arbitration.**	Disability leave supplement payments for employees covered by chapter 462, Laws of 1985 shall not be subject to interest arbitration as defined in RCW 41.56.430 through 41.56.905.

Appendix C: Temporary Duty Disability provisions in comparison systems

Alaska	**Service Credit Recovery**: An employee who takes more than 10 days leave of absence without pay in a calendar year because the employee is unable to work due to an on-the-job injury or occupational illness for which the employee is receiving benefits under Alaska Statute 23.30 (Workers' Compensation) may elect to receive credited service for the time on leave of absence without pay status. There is **no limit** on the amount of time that may be purchased.
Arizona	**Disability Benefit**: A member may receive benefits for Total and presumably temporary disability, incurred in performance of duty, prior to normal retirement, preventing performance of a reasonable range of duties within the employee's department. The monthly pension is one-twelfth of 50% of annual compensation at time of disability. Payments terminate after **twelve months** or return to work. The member must terminate employment to receive this benefit.
Arkansas	**No Benefit**: LOPFI does not offer or extend benefits for temporary disabilities and does not have any service credit purchase provisions that this type of service can be purchased under.
Colorado	**Disability Benefit**: A member injured on the job may be entitled to a Temporary Occupational Disability that is 40% of base salary. Once granted, benefits are payable from the day following the member's last day on the employer's payroll. Minimum of 1 year. Maximum of **five years**. At the end of five years the member either returns to employment, upgrades to Permanent Occupational or Total Disability status, or benefits are discontinued. If the member is restored to active service with his/her former employer, FPPA will transfer from the D&D fund the contributions required to fund the money purchase plan (or component) or fund service credit under the defined benefit plan (or component) while the member was on Temporary Disability (up to 16%). If the mandatory contribution amount is above 16%, the employer will make the additional contributions. If the disability is expect to be less than 12 months, short term disability benefits may be provided by the employer. No benefits will be provided by the Statewide defined benefit plan.
Delaware	**Service Credit Recovery**: A member may purchase service credit for a medical leave if the member subsequently accrues at least 1 year of credited service and pays into the Fund prior to the issuance of his or her 1st pension check, contributions determined by multiplying the rates in effect at the time of payment for member contributions and employer contributions times the average of the 60 months of creditable compensation used to calculate the member's pension benefit times the months or fractions thereof so credited. Any credited service purchased for medical leave shall not be used to determine eligibility for benefits.

Kansas	**Disability Benefit**: If you cannot perform duties related to your job due to an injury or illness, you can apply for disability benefits. You receive an annual benefit of 50 percent of your final average salary in on-going monthly payments. There is no child's benefit. If you return to work with any KP&F participating employer, your disability benefits will automatically stop. Participating Service is any service after your membership date. You will automatically receive this type of service credit while you work in a covered position and make contributions to the Retirement System. For Tier II members, this type of service will be credited during any period of approved disability if you qualify for disability benefits.
Maryland	**Authorized leave of absence purchase**: A member who goes on an approved leave of absence due to an injury or illness may purchase up to **two years** of service credit for the period of leave. The member pays the member contributions that would have been paid if not on leave, plus interest.
Nevada	**Service Credit Purchase**: If a member has five years of creditable service they may purchase up to a maximum of **five years** of service credit. The cost to purchase service is based on the average compensation times the number of months purchased times the actuarial percentage based on the member's age.
New Jersey	**Service Credit Recovery:** Members are eligible to purchase credit for time spent on official, authorized leaves of absence without pay. Members may purchase up to **two years** of service credit for leave for personal illness, and up to 3 months for leave for personal reasons. The cost of the purchase is shared equally between the member and the employer.
New York	**No Benefit**: New York does not provide any temporary disability leave purchase, authorized leave of absence purchase, or service credit purchase provisions.
Ohio	**Service Credit Recovery:** If a member is placed on a medical leave of absence due to a medical disability, the member may purchase credit for such a break in service, up to **one year** per event.
South Carolina	**Service Credit Recovery:** Members may establish service credit for various types of previous employment and leaves of absence, and up to **five years** of non-qualified service. A member may establish service credit for a period while on leave of absence and receiving Workers' Compensation benefits. The cost is based on contributions plus interest using your earnable compensation at the time of injury.

Dual Membership

Initial Consideration Follow-up

October 26, 2005

1. Issue

An initial presentation was given in August on dual membership describing how it works and highlighting some of the issues. This is a follow-up report with three potential changes to the existing dual membership statutes.

2. Staff

Greg Deam, Senior Research and Policy Manager
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3. Members Impacted

As stated in the earlier report, based on preliminary data as of September 30, 2004, there were 14,754 active, 1,788 inactive and 413 retired LEOFF Plan 2 members. Of the 14,754 active members, 1,485 have dual membership; of the 1,788 inactive members, 505 have dual membership; and of the 413 retired members, 57 have dual membership.

4. Current Situation

Under the current portability statutes (RCW 41.54), when members meet age and service requirements from one system they are eligible to retire out of all systems. Not all systems allow for portability. For example, LEOFF Plan 1 and the Judicial Retirement Systems (JRS) are not included in the portability statutes.

5. Background Information and Policy Issues

History

Dual membership or portability was created with the passage of ESSB 5150 in 1987. LEOFF Plan 2 was added as a dual member system in 1993. The purpose of portability was to ensure that employees, who serve the public in multiple careers, neither had their benefit increased nor decreased due to their career path in multiple public retirement systems.

Features of Dual Membership

- Allows members to combine their service credit in all systems to qualify for benefits in each system.
- Allows a member to restore withdrawn contributions from a prior system within two years of establishing membership in the current system.
- Allows a member to combine service credit from all systems to qualify for a disability retirement, but only in their current system. If they qualify for a disability retirement, they can receive a service retirement from the prior system, including actuarial reductions, if applicable.
- Allows plan 3 members to combine service credit from all systems to qualify for the indexing feature.
- Allows members to combine service credit from all systems to qualify for a survivor benefit. Many of the plans, including LEOFF Plan 2, require a minimum of 10 years of service credit in order for the surviving spouse or eligible minor children to be eligible for a retirement allowance.
- Allows members to substitute the base salary from any of the systems as compensation used in calculating the retirement allowance. The base salary does not include overtime, vacation leave cash-outs or other similar types of compensation enhancements. This feature can be particularly attractive if the member's service in the inactive system occurred in the past when compensation was much lower.

Dual Membership Issues

1. **Thirty-year cap.** If a member is a dual member in LEOFF Plan 2 / PERS Plan 1, they are subject to a potential cap on their benefit calculation. Under the current dual membership statutes, the combined pension benefits from both plans may not exceed the maximum allowable benefits for any one of the dual member's plans. PERS Plan 1 has a limit of 30 years for calculating the maximum benefit allowance. Even though LEOFF Plan 2 does not have a 30 year cap, the dual member's benefit could still be affected by the Plan 1 cap if their combined service exceeds 30 years.

2. **Twenty-year indexing.** LEOFF Plan 2, PERS Plan 3, SERS Plan 3, and TRS Plan 3 all have an indexing provision within each system. Indexing increases a member's benefit by twenty-five one-hundredths of a percent compounded each month from the member's separation date to the date retirement benefits are received. Under the

current dual membership statutes members can combine service in all systems to qualify for indexing, except LEOFF Plan 2. The dual membership indexing statute does not include LEOFF Plan 2.

3. **Includable salary.** LEOFF Plan 2, PERS Plan 3, SERS Plan 3, and TRS Plan 3 all have the same provision defining what is included in salary for calculating a retirement benefit within each of the systems. Under the current dual membership statutes, a member can choose to use their "base salary" from any of the dual member systems to calculate their retirement benefit in that system. However, the "base salary" is not as inclusive as the normal salary within the definitions of each of the systems (Appendix A).

6. Options

1. **Remove thirty-year cap.** The thirty-year cap would only apply if the member's dual membership was exclusively in plan 1 systems.

   Example
   A member retires at age 54, with a total of 35 years combined service; 22 years in PERS Plan 1 and 13 years in LEOFF Plan 2. Their LEOFF Plan 2 final average salary is $50,400 per year ($4,200/month). Their PERS Plan 1 average final salary is $54,000 per year ($4,500/month).

   Their benefit under current law would be:
   LEOFF Plan 2 = $1,042.97 per month
   PERS Plan 1 = $1,897.03 per month
   TOTAL = $2,940.00 per month

   Their benefit without the cap:
   LEOFF Plan 2 = $1,092.00 per month
   PERS Plan 1 = $1,980.00 per month
   TOTAL = $3,072.00

2. **Include LEOFF Plan 2 in indexing.** The indexing language is the same in LEOFF Plan 2 as it is for the plan 3 systems. To change the dual member statutes, to allow a member to use their service credit in all systems, to qualify for the indexing, would require a simple change. This would make the application of indexing consistent among the plans that have indexing.

   Example
   A member leaves employment at age 46 with four years of service credit in PERS Plan 2 and 18 years in LEOFF Plan 2. At age 53, they retire out of both systems, but choose to defer their PERS Plan 2 benefit until age 65. Their final average salary (FAS) when they terminated at age 46 is $4,500.

Under current dual membership statutes, the FAS would not qualify for indexing because they have less than 20 years of service in LEOFF Plan 2. Their monthly benefit at age 53 would be $1,620.00.

If the statute was changed to be consistent with indexing as applied to plan 3 systems, their monthly benefit at age 53 would be $1,772.36.

3. **Use all elements of salary as defined in the plan 2 and plan 3 systems.** Change the definition of "base salary" in the dual membership statutes to match the definition of what is included in salary for the other system plans.

   LEOFF Plan 2, PERS Plan 2 & 3, SERS Plan 2 & 3, TRS Plan 2 & 3 and PSERS Plan 2 all include the following elements in salary for calculating a retirement benefit:
   - Salaries or wages for personal services,
   - Overtime,
   - Salaries deferred under the provisions established under sections 403(b), 414(h) and 457.

   Base salary, as defined in the dual member statutes, includes:
   - Salaries or wages for personal services,
   - Salaries deferred under provisions of the United States internal revenue code.

   The definition for base salary in the dual member statutes does not include overtime and is vague in the deferred salary provision. Since part of the original intent of the dual membership statutes was not to diminish a member's retirement benefit because of a career change, the fact that certain salary elements are excluded in the calculation of a dual member benefit, would appear to be in conflict with the original intent.

   However, had the member been a PERS Plan 3 and SERS Plan 3 dual member, they would have qualified for indexing from the date of separation until their retirement date. They would qualify even though all Plan 3 systems have the same 20 years of service requirement to qualify for indexing as LEOFF Plan 2. The difference is the portability statutes specifically allowing any Plan 3 dual member to combine all service credit to qualify for indexing.

7. Supporting Information

Appendix A – Salary RCWs

APPENDIX A: Salary RCWs

LEOFF Plan 2:

"Basic salary" for plan 2 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States Internal Revenue Code, but shall exclude lump sum payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay. In any year in which a member serves in the legislature the member shall have the option of having such member's basic salary be the greater of:

(i) The basic salary the member would have received had such member not served in the legislature; or

(ii) Such member's actual basic salary received for nonlegislative public employment and legislative service combined. Any additional contributions to the retirement system required because basic salary under (b)(i) of this subsection is greater than basic salary under (b)(ii) of this subsection shall be paid by the member for both member and employer contributions.

PERS Plan 2 & 3:

"Compensation earnable" for plan 2 and plan 3 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States Internal Revenue Code, but shall exclude nonmoney maintenance compensation and lump sum or other payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay.

SERS Plan 2 & 3:

"Compensation earnable" for plan 2 and plan 3 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States internal revenue code, but shall exclude nonmoney maintenance compensation and lump sum or other payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay.

TRS Plan 2 & 3:

"Earnable compensation" for plan 2 and plan 3 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States Internal Revenue Code, but shall exclude lump sum payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay.

Dual Membership Definitions:

"Base salary" means salaries or wages earned by a member of a system during a payroll period for personal services and includes wages and salaries deferred under provisions of the United States internal revenue code, but shall exclude **overtime payments** [emphasis added], nonmoney maintenance compensation, and lump sum payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, any form of severance pay, any bonus for voluntary retirement, any other form of leave, or any similar lump sum payment.

Select Committee on Pension Policy

Judges Benefit Multiplier

(November 1, 2005)

Issue

Judges employed by Washington State after June 30, 1998, – Supreme Court, Court of Appeals, and Superior Court judges – are members of the Public Employees Retirement System (PERS). They also receive an additional retirement benefit called the Judges Retirement Account (JRA). This is a Defined Contribution (DC) account into which members and the state each contribute 2.5 percent of pay. Upon retirement, state employed judges receive their PERS benefits plus distributions from their JRA accounts.

Proposal

The Superior Court Judges Association has asked the SCPP to review the current benefit formula. The Association is proposing to raise the benefit formula to 3.5 percent per year to a maximum benefit of 75 percent of pay. The Judges Association also proposes that the benefit improvement be in lieu of the current JRA benefit received by Superior Court judges, thereby financing the benefit within existing resources. The Superior Court judges are the only judges making this request.

Staff

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Members Impacted

This proposal would effect all members of PERS serving as Superior Court judges.

According to the Administrative Office of the Courts, there are nine Supreme Court judges, 22 Court of Appeals judges, 179 Superior Court judges, 110 District Court judges, and 120 Municipal Court judges in Washington State.

Current Situation

Since July 1, 1988, newly elected or appointed judges have become members of the PERS Plan 2. Since March 1, 2002, newly elected or appointed judges have had the choice to enter either PERS 2 or PERS 3.

A Plan 2 member is eligible for an unreduced retirement benefit at age 65 with at least five years of service; the member's benefit would be 2 percent of their Average Final Compensation (AFC) times their years of service.

A Plan 3 member would be eligible for an unreduced retirement benefit at age 65 with at least ten years of service (or five years if 12 months of service credit is earned after age 54); their benefit would be 1 percent of their AFC times their years of service plus the accumulations in their individual defined contribution account.

There is no cap on a PERS 2/3 Defined Benefit (DB).

In addition to a PERS benefit, state-employed judges are also eligible for a supplemental benefit from the JRA — a Defined Contribution (DC) plan. The supplemental retirement benefit was created when the earlier Judicial Retirement System was closed (June 30, 1988). This benefit was established under Chapter 109, Laws of 1988, and is found in Chapter 2.14 RCW (see Appendix A). The JRA is available to judges serving on the Supreme Court, Court of Appeals, and Superior Court.

To fund the JRA benefit, members and their employer (the state) each contribute 2.5 percent of pay. Those contributions are deposited into member accounts in the "Judicial Retirement Principal Account" within the State Treasury. Under the direction of the Administrator of the Courts, this account may be deposited in select depository institutions, used to purchase life insurance or fixed or variable annuities, or as is done currently, invested by the State Investment Board.

Upon retirement, member judges are eligible for their PERS benefits, plus a JRA distribution. That distribution may be in the form of a lump-sum or other payment option as adopted by the Administrator for the Courts.

Plan History

Prior to the current PERS – JRA combination, judges were served by the Judges' Retirement Plan (1937 - 1971) and the Judicial Retirement System (1971 - 1988). Both plans offered a maximum benefit of 75 percent of final average salary that could be accrued after about 21½ years of service. The actual accrual rates differed for members with shorter service, but worked out almost the same for those who served long enough to accrue the maximum benefit (see Figure 1).

Figure 1
Service Retirement Formulas in the Judges and Judicial Retirement Plans

Judges	For members with 12 to 18 years of service: 50% of FAS × (Years of service ÷ 18) For members with more than 18 years of service: 50% of FAS + (1/18th of salary for each year over 18) to a maximum of 75% of FAS
Judicial	For members with more than 10 but less than 15 years of service: 3% of FAS per year of service For members with 15 or more years of service: 3.5% of FAS per year of service to a maximum of 75% of FAS

These plans were unusual in that they were funded on a pay-as-you-go basis. This made them inordinately expensive as there was no investment earnings to help defray the cost of the plans. While members' contributions were 7.5 percent of pay in the Judicial Plan and 6.5 percent of pay in the Judges Plan, the state contributions averaged over 40 percent of pay.

Based on recommendations of the Joint Committee on Pension Policy (JCPP), the Judicial Retirement System was closed to new members on June 30, 1988. New Superior Court, Court of Appeals, and Supreme Court judges would become members of PERS 2 and also contribute to the JRA. Because new judges became members of a cost-sharing, pre-funded plan, this lowered their cost and that of the state to about 7.5 percent of pay each, for a total of 15 percent of pay.

Member Characteristics

Based on current data, the average Superior Court judge became a member of PERS at around 40 years of age. That would be considered a mid-career hire for an average PERS member. Their entry date isn't necessarily when they became judges; they may have served in other PERS eligible capacities before their judges service. Superior Court judges are also highly paid relative to the PERS membership at large. Their salaries are set by the "Washington Citizens Commission on Salaries for Elected Officials" (WCCSEO). Superior Court judges annual salaries were set at $124,411 for fiscal year 2004, $128,143 for fiscal year 2005, and will increase to $131,988 in 2006.

Figure 2
Superior Court Judges Membership Demographics 9/30/03

	PERS 1	PERS 2	PERS 3
Active Members	51	102	7
Average Age	58.2	53.4	53.3
Average Years of Service	19.2	11.9	10.4

Retirement Benefit Example

An example of the defined retirement benefit earned by a Superior Court judge would be similar to that earned by a PERS 2 member in a typical civil service position – 2 percent per year of service times AFC. The difference in the retirement benefit rests in the DC accumulations in the JRA. Figure 3 shows an estimated accumulation in such an account and, if annuitized, what that would represent as a defined benefit. This example assumes an entry age of 40 and retirement at age 65 after 25 years of service. While many judges serve beyond age 65, this is when the member is first eligible for an unreduced defined benefit. This example assumes that PERS and judicial service are the same; members with the same PERS service but with less judicial service would accumulate less in their JRA.

Figure 3
Superior Court Judge
Plan 2 Member Retiring in 2004

Age	65
Years of Service	25
Benefit Ratio (2% × Years of Service)	50%
Average Final Compensation (monthly)	$9,502
Base Benefit	$4,751
JRA Accumulations	$276,928
Annuitized Accumulation (monthly)	$2,084
Total Monthly Benefit	$6,835
% of Average Final Compensation	71.9%
Equivalent DB Accrual Rate per Year	2.88%

In Figure 3, the member's DB is 50 percent of AFC – 2 percent times 25 years of service. With an AFC of $9,502, the base benefit, prior to payment options, is $4,751. Added to the DB is the annuitized JRA accumulations. The estimated accumulations are based on contributions of 5 percent of salary compounded at 8 percent interest (the actuarially assumed rate of return) for 25 years. Judges salaries are assumed to increase at a 3.5% annual rate - a bit less than the 4.5% assumption for PERS members overall. When added to the DB, the annuitized JRA accumulations increase the total monthly benefit to $6,835. That represents 71.9 percent of the member's AFC and a benefit accrual rate equivalent to 2.88 percent per year of service. It should be noted that a lower/higher long-term rate-of-return on the JRA account would result in lesser/greater, accumulations than in the above example.

Assets invested over the long-term are less sensitive to any single down market period. One risk in a DC design, as is the JRA, is the possibility of poor investment performance in the short term. Judges who accepted late-career appointments, say after age 50, would be more at risk of a "bear market" impeding their JRA accumulations.

Other States

Among the comparative states used in this analysis, judges' retirement benefits are distinct from regular plan members. The principal consistencies among the comparative states' judges' retirement plans is that they tend to be DB plans and have relatively high benefit accrual rates – Ohio's plan is a DB plan, with a DC option. Beyond that, there are significant differences in benefit multipliers, AFC periods, and maximum benefits.

Figure 4
Select Judges Retirement Plan Provisions

	Benefit Multiplier	AFC Period	Maximum Benefit
CalPERS (Judges II)	3.75%	12 months	75%
Colorado PERA	2.5%	3 years	100%
Florida FRS	3.33%	5 fiscal years	100%
Idaho	5%, yrs 1-10 2.5%, yrs 10+	Current Annual	75%
Iowa	3.0%	3 years	60%
Minnesota[1]	3.2%	5 years	76.8%
Missouri	2.5%, 3.33%, 4.17%	Current Salary	50%
Ohio[2]	2.2% up to 30 yrs	3 highest yrs	100%
Oregon **A: Regular** **B: With Pro Tempore service**	**A:** 2.8125% yrs 1-16 1.67% yrs 16+ **B:** 3.75% yrs 1-16 2.0% yrs 16+	36 months	A: 65% B: 75%
Wisconsin	2000 - 2.0% Prior to 2000 - 2.165%	3 highest years	70% or more

1 *After 24 years, members contribute to the Unclassified Employees Retirement Plan.*

2 *Ohio judges (elected officials) may purchase service credit for two times the annual employee contribution rate.*

The benefit multiplier among the comparative states varies from 2.5 percent in Colorado to 4.17 percent in Missouri (see Figure 4). But those multipliers must be viewed in concert with the other elements of the plans, particularly the maximum benefit and participation in Social Security. For instance, Ohio and Colorado members do not participate in Social Security. Missouri's high multiplier is only for those who are appointed at later ages and allows them to accrue a benefit equal to 50 percent of their final salary at age 62 after 12 years of service. Missouri's plan allows a member to receive a maximum benefit of 50 percent of final salary, the lowest of the comparative states. As a result, judges retirement policy in Missouri is considerably different than the policy in Colorado where judges are encouraged to serve longer and retire at later ages.

The AFC period among the plans varies widely as well. Idaho and Missouri use the current salary in the benefit formula and California uses the most recent 12 month salary. Minnesota and Florida use a five-year average. But, again, these design elements should be considered in light of the maximum benefit allowed under these plans. Minnesota and Florida allow members to accrue a benefit at a higher percent of AFC than Idaho, Missouri, or California.

Based on the comparative states, there is little consistency in the retirement plan design and policy for judges. Some plans encourage long service – some short. Some have high multipliers – some low. Some use the current salary to calculate benefits – some use up to five years of salary. The combination of PERS and JRA benefits appears to place Washington State in the middle of the pack in terms of retirement benefits for judges.

Policy

Retirement policy regarding judges employed by the state is inferred in statute. That policy is based on the principal that judicial service warrants a greater retirement benefit than the standard PERS allowance; this is accomplished through the JRA. This policy drove the benefit design in the earlier "Judges" and "Judicial" retirement systems. The accumulation dynamics of a DC account are such that, while not stated, longer membership is advantageous and thus encouraged.

There may also be Bakenhus (contractual rights) issues with any benefit proposal that is not optional. It is possible that a mandatory change in benefits of this nature could harm some individuals. Those whose Judges Retirement Account (JRA) performed well during their judicial service could see their total benefits diminished by a mandatory change.

Additionally, any significant change in benefits for judges may result in a shift in the choices made by future members. Currently there are a number of judges who chose to join PERS 3. It is uncertain whether they would have made that choice if they could have earned a 3.5% per year accrual in PERS 2. If the committee wants to forward a proposal to increase the PERS 2 defined benefit multiplier for judges, it may be worthwhile to include a window for PERS 3 judges to move to PERS 2.

Policy Questions

Is a combination DB/DC the best retirement plan design for mid-career hires? What about late-career hires?

In light of the higher compensation received by judges, is it necessary to have a higher multiplier in order for their retirement benefit to be adequate?

Are there recruitment issues that would be resolved by modifying judges retirement benefits?

Benefit Questions

Does the committee want to include the Supreme Court and Court of Appeals judges in this proposal, as they also receive the JRA?

Does the committee want to include PERS District and Municipal Court judges in any proposal, even though they do not currently receive the JRA?

Does the committee want to establish an option for members to purchase past service at the higher multiplier?

If the committee decided to change the plan design for Superior Court judges so as to consolidate the existing DB and DC elements into a DB design, would it want this consolidation of benefits to be of equivalent value to the existing PERS and JRA plans, or would it want to increase the benefits?

Would the committee want to make any benefit proposal optional?

Would the committee want to provide PERS 3 Judges a choice to transfer to PERS 2?

Options

1. Eliminate the Judges Supplemental Retirement Account and create a Superior Court judges benefit that allows PERS 1 and PERS 2 members to accrue a 3.5 percent per year DB to a maximum of 75 percent of AFC and Plan 3 members to accrue a 1.75 percent per year DB to a maximum of 37.5 percent of AFC. Plan 3 members would still be required to contribute 2.5 percent of pay they had formerly contributed to their JRA to either their PERS 3 member account (instead of a 5 percent minimum contribution it would be a 7.5 percent minimum contribution) or a DC account.

Fiscal Impact: The 2003 normal cost (not including gain-sharing) of the PERS 2/3 employer rate and the PERS 2 member rate is 4.35 percent of pay each. The PERS 1 member contribution rate is 6.0 percent of pay. Those rates support the PERS DB accruals. For the DB to accrue at 3.5 percent per year instead of 2.0 percent per year, the cost would increase on a near proportionate basis. Redirecting the 2.50 percent JRA contribution would make up most of the cost, but the plan would require additional contributions from both the employer and members. This would have a General Fund State cost of $200,000 in 2006-07 and a 25 year cost of $9.1 million.

Alternate Fiscal Impact: If the member judges were to pay the entire cost of the benefit increase, their contribution rates would be the original normal cost plus the JRA contribution plus the entire difference. That would be 1.44 percent for PERS 2 members; (0.72 percent for the member and employer) the average increase in a judge's annual retirement contributions would be $1,792 (2004 salary). This would require no new employer contributions.

2. Eliminate the Judges Supplemental Retirement Account and create a Superior Court judges benefit that allows members to accrue a DB equal to the combined value of the existing PERS and JRA benefits to a maximum of 75 percent of AFC for Plan 2 members and 37.5 percent of AFC for Plan 3 members. This would be an estimated accrual rate of 3.15 percent per year of service for Plan 2 members and 1.575 percent for Plan 3 members. Plan 3 members would still be required to contribute 2.5 percent of pay they had formerly contributed to their JRA to either their PERS 3 member account (instead of a 5 percent minimum contribution it would be a 7.5 percent minimum contribution) or a DC account.

Fiscal Impact: The 2003 normal cost (not including gain-sharing) of the PERS 2/3 employer rate and the PERS 2 employee rate is 4.35 percent of pay each. The PERS 1 member contribution rate is 6.0 percent of pay. Those rates support the PERS 2/3 DB accruals. The 2.50 percent JRA contribution would be added to the normal cost contribution rates to pay for the equivalent increase in the DB accrual. This would require no new member or employer contributions.

3. Include all judges in any benefit proposal, including District and Municipal Court judges. As District and Municipal Court judges do not pay into the JRA, they and their employers do not have that existing revenue source to off-set part of the cost of any benefit increase. (Note: Cost estimates for District and Municipal Court judges were based on the Superior Court Judges demographic profile. More complete information will result in different costs.)

Fiscal Impacts:

To fund a defined benefit with a 3.5 percent per year accrual, District and Municipal Court judges and their employers would each need to contribute an additional 3.22 percent of pay. The combined employer cost for Superior Court, District Court, and Municipal Court judges would be $1.3 million in 2006-07 ($0.2 million GFS and $1.1 million local) and a 25 year cost of $68.3 million ($9.1 million GFS and $59.2 million local).

To fund a defined benefit with a 3.15 percent per year accrual, District and Municipal Court judges and their employers would each need to contribute an additional 2.50 percent of pay. The Local Government employer cost would be $900,000 in 2006-07 ($0 GFS) and a 25 year cost of $46.0 million ($0 GFS).

4. Keep the existing JRA benefit and retain the existing multiplier.

Fiscal Impact: This would require no new member or employer contributions.

Stakeholder Input

Letters from Leonard Costello, Immediate Past President, Superior Court Judges Association (see Attachments).

Next Steps

The Executive Committee of the SCPP will decide whether to forward a recommendation to the full committee.

WASHINGTON
COURTS

Superior Court Judges' Association

May 26, 2005

Senator Karen Fraser
Chair, Pension Policy Committee
Olympia, WA

Representative Steve Conway
Vice Chair, Pension Policy Committee
Olympia, WA

Dear Senator Fraser and Representative Conway

On behalf of the superior court judges in Washington State, I respectfully request the Pension Policy Committee review the current benefit formula for judges. Recent independent analysis shows that the benefits of the Washington State Superior Court Judges retirement plan ranks near the bottom of the fifty states. This alarming statistic is in sharp contrast to Washington's judicial reputation as one of the best in the United States.

The superior court judges request the committee consider an improvement to the plan that would increase the current two percent multiplier to three and a half percent for service earned; and set a maximum of 75 percent of pay for the entire benefit. As a possible offset to the increased cost to the state, the judges request the committee explore reducing the state's contribution to the judicial retirement account that is currently set at two and a half percent.

Most of Washington's superior court judges come to the position later in their careers because they want to serve the public good. Our objective in the review is to establish a retirement benefit formula that attracts the best and brightest from the legal community into Washington's judiciary.

Thank you,

Leonard W Costello

Leonard Costello
Immediate Past President

cc: Matt Smith

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Representative Bill Fromhold
Chair, Pension Policy Committee
Olympia WA

Dear Representative Fromhold,

This letter is in follow up to several questions from members of the executive committee of the Pension Policy Committee last month regarding the requested changes to the Superior Court Judge's pension plan.

First, executive committee members asked whether the district, municipal, appellate and supreme court judges wanted to be included in the proposal forwarded by the superior court judges. At this time, each of the other associations are considering the proposal but have not formally requested to be included. This could change before the legislature meets in January. Therefore, I recommend the proposal move forward making changes only to the Superior Court Judge's plan.

Second, the question was raised about buying back prior years of judicial service. The Superior Court Judges Association requests the proposal allow for the buy back of prior years at the time the judge retires. The proposal would allow for only the buying back of years of service accumulated in PERS **as a judge.**

If you have any further questions regarding this matter, please do not hesitate to contact me. Thank you for considering this important matter

Sincerely,
Leonard Costello

PROPOSED RETIREMENT BENEFIT FORMULA: RESTORING COMPARABILITY TO JUDICIAL RETIREMENT

Purpose

The purpose of this proposal is to attract and retain highly qualified judges to the Washington judiciary. Returning to the pre-1988 multiplier of 3.5% for years of judicial service will bring Washington to a comparable level of judicial retirement benefits provided for judges in the 50 states. It is the intent of this proposal that it be cost neutral to the state.

Proposed Improvement

If a judge elects this benefit package, this proposal will increase the current 2% multiplier to 3.5% for judicial service earned after the effective date of the legislation, up to a maximum of 75% (average of highest two years for PERS Plan 1; average of last five years for PERS Plan 2). The JRA contribution by the employee and the employer will be redirected to the defined benefit package.

Option to Opt In

Current PERS Plan 1 and 2 plan members will have a one-time opportunity to opt to receive this proposed benefit package. Current PERS Plan 3 members will have a one-time opportunity to opt into PERS Plan 2.

New Judges

New judges will be part of the PERS Plan 2 with these judicial benefits after the effective date, unless the judge has been a member of the PERS Plan 1 through prior public employment. In that event, the new judge will continue as a member of the PERS Plan 1 with the 3.5% multiplier up to a maximum of 75% of the average of the highest two years of judicial service.

Applicability

This proposal includes the Superior Court and Court of Appeals judges and the Supreme Court justices. It provides that the District Court judges and elected Municipal Court judges are eligible to participate if approved by their local legislative bodies.

Buy Back Option

Members or their survivors will have the option to buy back years of judicial service (including district//municipal court) at the time of retirement and may use funds in their JRA account for that purpose.

Membership Demographics (as of 9/30/03 for superior court judges; average age at time of appointment or election to superior court is 47)

	Plan 1	Plan 2	Plan 3
Number of Active Members	51	102	7
Average age	58.2	53.4	53.3
Average Annual Salary	$121,996	$121,965	$121,983

Impact on PERS Plan 2/3 Contribution Rates *(includes employer gain-sharing costs)*

	Employee*	Employer
Rate Under 3.5% Prospective Formula	7.57%	7.69%
Rate Under Current Formula (historical avg.)	4.35%	4.44%
Increase Due to Proposed Improvement	3.22%	3.25%
Current JRA Contribution	2.50%	2.50%

*Plan 3 members do not contribute to their defined benefit

Judges opting into this benefit package will pay an additional 1.44% of their salary per month. (The 1.44% is calculated as follows: 3.22% less 2.50% (.722%) x 2 = 1.44%.) To achieve the 3.5% multiplier, judges will pay the additional cost for both the employee and employer to maintain the cost neutral status for the state of this proposal. The judges currently pay 2.25% as a contribution (compared to the historical average of 4.35% above used by the actuary to determine the additional cost of the proposed new benefit). This 2.25% judge-employee contribution is projected to increase to 3.5% on July 1, 2006.

Impact on PERS Plan 1 Contribution Rates

	Employee	Employer
Rate Under Current Formula (fixed in statute)	6.0%	3.38%
Increase Due to Proposed Improvement	3.76%	
Current JRA Contribution	2.50%	2.50%

PERS Plan 1 is not a 50/50 cost sharing Plan as is PERS Plan 2. Judges opting into this benefit package will pay an additional 1.26% of their salary per month after the 5% (2.5% employee contribution and 2.5% employer contribution) to the JRA account is redirected to this benefit.

Current Estimated Cost of Past Service (optional purchase) *(assuming 3.5% multiplier is applied to past service)*

	Plan 1	Plan 2/3
Total Increase in Liability (present value)	$8,518,807	$9,293,296
Average Increase Per Member	$ 167,035	$ 85,260
Average Increase Per Year of Service	$ 8,700	$ 7,077

AN ACT Relating to general provisions in the public safety employees' retirement system; amending RCW 41.37.005, 41.37.010, 41.04.270, 41.04.278, and 41.04.393; and providing an effective date.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

Sec. 1. RCW 41.37.005 and 2004 c 242 s 1 are each amended to read as follows:

It is the intent of the legislature to establish a separate public safety employees' retirement system for ((~~those~~)) certain public employees whose jobs contain a high degree of physical risk to their own personal safety and who ((~~engage in duties contained in this section. The duties involved in these jobs include providing~~)) provide public protection of lives and property, ((~~the authority and power to arrest, conducting criminal investigations, enforcing the criminal laws of the state of Washington, and the authority to carry a firearm as part of the job. Qualifications and training for these jobs include passage of a civil service examination and completion of the Washington criminal justice training commission basic training course or equivalent. Only those job classes specifically included in RCW 41.37.010(5) by the legislature are public safety employees, and only~~

~~for service earned after the effective date of the inclusion of that job class in RCW 41.37.010(5)~~)) but who are not eligible for membership in the law enforcement officers' and fire fighters' retirement system.

Sec. 2. RCW 41.37.010 and 2005 c 327 s 4 are each amended to read as follows:

The definitions in this section apply throughout this chapter, unless the context clearly requires otherwise.

(1) "Retirement system" means the Washington public safety employees' retirement system provided for in this chapter.

(2) "Department" means the department of retirement systems created in chapter 41.50 RCW.

(3) "State treasurer" means the treasurer of the state of Washington.

(4) "Employer" means any state limited authority law enforcement agency including, but not limited to, the Washington state department of corrections, the Washington state parks and recreation commission, the Washington state gambling commission, the Washington state patrol, and the Washington state liquor control board((~~,~~)); any county corrections department((~~s,~~)); any city corrections department((~~s~~)) not covered under chapter 41.28 RCW((~~,~~)); or other employers employing statewide elective officials.

(5) "Member" means any employee employed by an employer on a full-time((~~, fully compensated~~)) basis ((~~within the following job classes in effect as of January 1, 2004: City corrections officers, jailers, police support officers, custody officers, and bailiffs; county corrections officers, jailers, custody officers, and sheriffs corrections officers; county probation officers and probation counselors; state correctional officers, correctional sergeants, and community corrections officers; liquor enforcement officers; park rangers; commercial vehicle enforcement officers; and gambling special agents~~)):

(a) Who is in a position that requires completion of a certified criminal justice training course and is authorized by their employer to arrest, conduct criminal investigations, enforce the criminal laws of the state of Washington, and carry a firearm as part of the job;

(b) Whose primary responsibility is to ensure the custody and security of incarcerated individuals as a corrections officer or jailer;

(c) Who is a limited authority enforcement officer for an employer; or

(d) Whose primary responsibility is to supervise members eligible under this subsection.

(6)(a) "Compensation earnable" for members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States internal revenue code, but shall exclude nonmoney maintenance compensation and lump sum or other payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay.

(b) "Compensation earnable" for members also includes the following actual or imputed payments, which are not paid for personal services:

(i) Retroactive payments to an individual by an employer on reinstatement of the employee in a position, or payments by an employer to an individual in lieu of reinstatement, which are awarded or granted as the equivalent of the salary or wage which the individual would have earned during a payroll period shall be considered compensation earnable to the extent provided in this subsection, and the individual shall receive the equivalent service credit;

(ii) In any year in which a member serves in the legislature, the member shall have the option of having such member's compensation earnable be the greater of:

(A) The compensation earnable the member would have received had such member not served in the legislature; or

(B) Such member's actual compensation earnable received for nonlegislative public employment and legislative service combined. Any additional contributions to the retirement system required because compensation earnable under (b)(ii)(A) of this subsection is greater than compensation earnable under (b)(ii)(B) of this subsection shall be paid by the member for both member and employer contributions;

(iii) Assault pay only as authorized by RCW 27.04.100, 72.01.045, and 72.09.240;

(iv) Compensation that a member would have received but for a disability occurring in the line of duty only as authorized by RCW 41.37.070;

(v) Compensation that a member receives due to participation in the leave sharing program only as authorized by RCW 41.04.650 through 41.04.670; and

(vi) Compensation that a member receives for being in standby status. For the purposes of this section, a member is in standby status when not being paid for time actually worked and the employer requires the member to be prepared to report immediately for work, if the need arises, although the need may not arise.

(7) "Service" means periods of employment by a member on or after July 1, 2006, for one or more employers for which compensation earnable is paid. Compensation earnable earned for ninety or more hours in any calendar month shall constitute one service credit month. Compensation earnable earned for at least seventy hours but less than ninety hours in any calendar month shall constitute one-half service credit month of service. Compensation earnable earned for less than seventy hours in any calendar month shall constitute one-quarter service credit month of service. Time spent in standby status, whether compensated or not, is not service.

Any fraction of a year of service shall be taken into account in the computation of such retirement allowance or benefits.

(a) Service in any state elective position shall be deemed to be full-time service.

(b) A member shall receive a total of not more than twelve service credit months of service for such calendar year. If an individual is employed in an eligible position by one or more employers the individual shall receive no more than one service credit month during any calendar month in which multiple service for ninety or more hours is rendered.

(8) "Service credit year" means an accumulation of months of service credit which is equal to one when divided by twelve.

(9) "Service credit month" means a month or an accumulation of months of service credit which is equal to one.

(10) "Membership service" means all service rendered as a member.

(11) "Beneficiary" means any person in receipt of a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer by another person.

(12) "Regular interest" means such rate as the director may determine.

(13) "Accumulated contributions" means the sum of all contributions standing to the credit of a member in the member's individual account, including any amount paid under RCW 41.50.165(2), together with the regular interest thereon.

(14) "Average final compensation" means the member's average compensation earnable of the highest consecutive sixty months of service credit months prior to such member's retirement, termination, or death. Periods constituting authorized leaves of absence may not be used in the calculation of average final compensation except under RCW 41.37.290.

(15) "Final compensation" means the annual rate of compensation earnable by a member at the time of termination of employment.

(16) "Annuity" means payments for life derived from accumulated contributions of a member. All annuities shall be paid in monthly installments.

(17) "Pension" means payments for life derived from contributions made by the employer. All pensions shall be paid in monthly installments.

(18) "Retirement allowance" means monthly payments to a retiree or beneficiary as provided in this chapter.

(19) "Employee" or "employed" means a person who is providing services for compensation to an employer, unless the person is free from the employer's direction and control over the performance of work. The department shall adopt rules and interpret this subsection consistent with common law.

(20) "Actuarial equivalent" means a benefit of equal value when computed upon the basis of such mortality and other tables as may be adopted by the director.

(21) "Retirement" means withdrawal from active service with a retirement allowance as provided by this chapter.

(22) "Eligible position" means any permanent, full-time, fully compensated position included in subsection (5) of this section.

(23) "Ineligible position" means any position which does not conform with the requirements set forth in subsection (22) of this section.

(24) "Leave of absence" means the period of time a member is authorized by the employer to be absent from service without being separated from membership.

(25) "Retiree" means any person who has begun accruing a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer while a member.

(26) "Director" means the director of the department.

(27) "State elective position" means any position held by any person elected or appointed to statewide office or elected or appointed as a member of the legislature.

(28) "State actuary" or "actuary" means the person appointed pursuant to RCW 44.44.010(2).

(29) "Plan" means the Washington public safety employees' retirement system plan 2.

(30) "Index" means, for any calendar year, that year's annual average consumer price index, Seattle, Washington area, for urban wage earners and clerical workers, all items, compiled by the bureau of labor statistics, United States department of labor.

(31) "Index A" means the index for the year prior to the determination of a postretirement adjustment.

(32) "Index B" means the index for the year prior to index A.

(33) "Adjustment ratio" means the value of index A divided by index B.

(34) "Separation from service" occurs when a person has terminated all employment with an employer.

Sec. 3. RCW 41.04.270 and 2005 c 327 s 1 are each amended to read as follows:

(1) Except as provided in chapter 2.10, 2.12, 41.26, 41.28, 41.32, 41.35, <u>41.37,</u> 41.40, or 43.43 RCW, on and after March 19, 1976, any member or former member who (a) receives a retirement allowance earned by ((~~said~~)) <u>the</u> former member as deferred compensation from any public retirement system authorized by the general laws of this state, or (b) is eligible to receive a retirement allowance from any public retirement system listed in RCW 41.50.030, but chooses not to apply, or (c) is the beneficiary of a disability allowance from any public retirement system listed in RCW 41.50.030 shall be estopped from becoming a member of or accruing any contractual rights whatsoever in

any other public retirement system listed in RCW 41.50.030: PROVIDED, That (a) and (b) of this subsection shall not apply to persons who have accumulated less than fifteen years service credit in any such system.

(2) Nothing in this section is intended to apply to any retirement system except those listed in RCW 41.50.030 and the city employee retirement systems for Seattle, Tacoma, and Spokane. Subsection (1)(b) of this section does not apply to a dual member as defined in RCW 41.54.010.

Sec. 4. RCW 41.04.278 and 2003 c 295 s 2 are each amended to read as follows:

(1) The select committee on pension policy may form three function-specific subcommittees, as set forth under subsection (2) of this section, from the members under RCW 41.04.276(1) (a) through (e), as follows:

(a) A public safety subcommittee with one member from each group under RCW 41.04.276(1) (a) through (e);

(b) An education subcommittee with one member from each group under RCW 41.04.276(1) (a) through (e); and

(c) A state and local government subcommittee, with one retiree member under RCW 41.04.276(1)(d) and two members from each group under RCW 41.04.276(1) (a) through (c) and (e).

The retiree members may serve on more than one subcommittee to ensure representation on each subcommittee.

(2)(a) The public safety subcommittee shall focus on pension issues affecting public safety employees who are members of the law enforcement officers' and fire fighters'<u>, public safety employees',</u> and Washington state patrol retirement systems.

(b) The education subcommittee shall focus on pension issues affecting educational employees who are members of the public employees', teachers', and school employees' retirement systems.

(c) The state and local government subcommittee shall focus on pension issues affecting state and local government employees who are members of the public employees' retirement system.

Sec. 5. RCW 41.04.393 and 2003 c 32 s 1 are each amended to read as follows:

Retirement benefits paid under chapter 41.26, <u>41.37,</u> 41.40, or

43.43 RCW to beneficiaries of public safety officers who die in the line of duty shall be paid in accordance with Title 26 U.S.C. Sec. 101(h) as amended by the Fallen Hero Survivor Benefit Fairness Act of 2001.

<u>NEW SECTION.</u> **Sec. 6.** This act takes effect July 1, 2006.

--- END ---

Staff has requested the Code Reviser to add an emergency clause to this draft.

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**1/15/03**	**HB 2537/SB 6246**

SUMMARY OF BILL:

This bill creates the Public Safety Employees Retirement System (PSERS) Plan 2. Full-time and fully compensated employees in the following job classes are eligible for membership in the new PSERS plan:

- State and county correction officers
- State and local community correction officers
- City correction officers (other than the employees covered under the first-class cities retirement system)
- State park rangers
- Gambling commission enforcement officers
- Liquor control enforcement officers
- Commercial vehicle enforcement officers

Existing members of the Public Employees Retirement System (PERS) plans 2/3, who are in eligible PSERS job classes, would be given the option to transfer to PSERS for prospective service credit only and become dual members in PERS and PSERS. PSERS eligible members who are currently members of PERS Plan 1 would remain in PERS Plan 1.

The plan would provide for a retirement allowance equal to 2% of a member's average final compensation for each year of service credit payable under the following standard retirement options:

- Normal retirement at age 65 with at least 5 years of service credit
- Unreduced retirement at age 60 with at least 10 years of service credit in PSERS
- Early retirement at age 53 with at least 20 years of service credit; retirement allowance reduced by 3% for each year the member retires prior to age 60.
- Disability retirement with at least 10 years of service credit in PSERS; retirement allowance with an actuarial reduction for each year the member retires prior to age 60.

All other proposed provisions are equal to the provisions of PERS Plan 2.

Effective Date: July 1, 2006, unless modified or abolished by the legislature prior to July 1, 2006.

CURRENT SITUATION:

Members that would be eligible for the proposed PSERS Plan 2 are currently members of PERS plans 2/3. PERS Plan 2 provides for a retirement allowance equal to 2% of a member's average final compensation for each year of service credit payable under the following standard retirement options:

- Normal retirement at age 65 with at least 5 years of service credit
- Early retirement at age 55 with at least 20 years of service credit; retirement allowance with an actuarial reduction for each year the member retires prior to age 65.
- Alternate early retirement at age 55 with at least 30 years of service credit; retirement allowance reduced by 3% for each year the member retires prior to age 65.
- Disability retirement with at least 10 years of service credit; retirement allowance with an actuarial reduction for each year the member retires prior to age 65.

MEMBERS IMPACTED:

We estimate that approximately 7,200 members out of the total 132,448 members in PERS plans 2/3 would be eligible to transfer under this bill. However, since the enhanced PSERS retirement and disability benefit require at least 10 years of service credit, we estimate that 1,200 members would opt not to transfer from PERS to PSERS. This reduces the estimated initial PSERS population to about 6,000.

Demographic information for the group of PERS Plan 2/3 employees that will likely transfer to PSERS is summarized in the following table:

Estimated Initial PSERS Population

Job Class	Estimated Count*	GF-S Percentage	Local Government Percentage	Average Annual Salary
State Park Rangers	170	100%	0%	$39,800
Gambling Commission Enforcement Officers	70	0%	0%	$48,500
Liquor Enforcement Officers	55	17%	0%	$44,500
Commercial Vehicle Enforcement Officers	50	6%	0%	$45,200
State Correction Officers	2,800	100%	0%	$38,400
State Community Correction Officers	585	100%	0%	$41,300
County Correction Officers	1,765	0%	100%	$35,100
City Correction Officers**	130	0%	100%	$34,700
Local Community Correction Officers	340	0%	100%	$41,300
Total	**5,965**	**60%**	**36%**	**$38,100**

** Estimated counts increased by a 5% load due to uncertainty in the data and to reflect general conservatism*

*** Does not include employees covered under the first-class cities retirement system which are ineligible for membership*

The average PERS Plan 2/3 member that would likely transfer to PSERS is age 38 with about 7 years of service credit in PERS (as of September 30, 2002).

We estimate that for a typical member impacted by this bill, the increase in benefits would be the option to retire at the following earlier ages:

1. At age 53 or later, with a retirement allowance reduced by 3% per year for each year the member retires prior to age 60 (utilizing portability with PERS for eligibility purposes); or
2. At age 60, with an unreduced retirement allowance.

ASSUMPTIONS:

We have assumed that existing PERS Plan 2/3 members who could not benefit from the enhanced benefit provisions in PSERS will opt not to transfer to PSERS. Approximately 17% of the state correction officers in PERS plans 2/3 fall into this category. We have applied a similar percentage (20%) to the local government job classes where individual PERS member data is unavailable at this time.

We have assumed the following rates of retirement due to the enhanced retirement benefit provisions under this proposed retirement plan. Members with past service in PERS are assumed to retire at rates between the PERS rates and the Public Safety rates (weighted by service in each system).

Public Safety Retirement Rates		
Age	Male	Female
53	3%	3%
54	3%	3%
55	3%	3%
56	8%	8%
57	8%	8%
58	15%	11%
59	16%	12%
60	30%	36%
61	26%	26%
62	36%	36%
63	50%	50%
64	89%	89%
65	46%	31%
66	30%	30%
67	22%	26%
68	22%	26%
69	26%	22%
70	100%	100%

In determining the fiscal budget determinations, we have applied the GF-S and local government percentages contained in the Members Impacted section. We have also increased the average annual salary for state agency job classes by a 10% load due to uncertainty in the data and to reflect general conservatism. We used the high average salary from the Washington City and County 2003 Salary and Benefit Survey for the local government job classes where individual member data was unavailable.

FISCAL IMPACT:

Description:

This bill will transfer prospective service credit in PERS to the proposed PSERS Plan 2 for members that elect to transfer. As a result, the present value of future benefits for existing members impacted by this bill will decrease in PERS and increase in PSERS (see table under Actuarial Determinations).

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

(Dollars in Millions)		Current	Increase	Total
Actuarial Present Value of Projected Benefits				
(The Value of the Total Commitment to all Current Members)	**PERS 2/3**	$13,093	($304)	$12,789
	PSERS 2	$0	$385	$385
	Total	$13,093	$81	$13,174
Unfunded Actuarial Accrued Liability				
(The Portion of the Plan 1 Liability that is Amortized at 2024)	**PERS 2/3**	n/a	n/a	n/a
	PSERS 2	n/a	n/a	n/a
	Total	n/a	n/a	n/a
Unfunded Liability (PBO)				
(The Value of the Total Commitment to all Current Members Attributable to Past Service)	**PERS 2/3**	($3,924)	$0	($3,924)
	PSERS 2	$0	$0	$0
	Total	($3,924)	$0	($3,924)

Projected Contribution Rates:

Projected PERS contribution rates will decrease as a result of this proposal. The Aggregate Cost (AC) method in PERS Plans 2/3 results in the funding of some benefits before they are accrued (future benefits). The amount of this "prefunding" depends on the length of one's working career and the magnitude of past investment gains or losses relative to the long-term investment return assumption. Past investment gains and the "prefunding" of future benefits under the AC method, on an actuarial value basis, will not transfer from PERS to PSERS for the members that elect to transfer. This will serve to temporarily reduce projected PERS contribution rates after the transfer as reflected below.

The initial PSERS contribution rate will exceed the projected PERS rate by about 3% and trend down to about 1% in 2009 and thereafter. PERS contribution rates are projected to increase over the next several biennia due to recent asset losses. The projected PSERS contribution rate, on the other hand, remains relatively stable since the plan starts without any assets (and without any past investment gains or losses that are not yet recognized in the actuarial value of assets). As a result, it may require several biennia before the expected long-term biennial cost of this proposal will surface.

	PERS Increase	PSERS Increase	PSERS Total
2006-2007			
Employee (Plan 2)	(0.17)%	3.24%	6.57%
Employer	(0.17)%	3.24%	8.23%*
2007-2009			
Employee (Plan 2)	(0.09)%	2.17%	6.45%
Employer	(0.09)%	2.17%	8.72%
2009-2011			
Employee (Plan 2)	(0.04)%	1.33%	6.23%
Employer	(0.04)%	1.33%	9.04%
Long-Term Rates			
Employee (Plan 2)	0.0%	0.8%	5.3%
Employer	0.0%	0.8%	5.3%**

* *The employer is projected to contribute 6.57% to PSERS; the remainder is an estimate of the PERS 1 UAAL rate.*

***Assumes that the PERS 1 UAAL has been completely amortized.*

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

Costs (in Millions):	PERS	PSERS*	Total
2004-2005			
State:			
General Fund	$ 0.00	$ 0.00	$ 0.00
Non-General Fund	0.00	0.00	0.00
Total State	**$ 0.00**	**$ 0.00**	**$ 0.00**
Local Government	$ 0.00	$ 0.00	$ 0.00
Total Employer	$ 0.00	$ 0.00	$ 0.00
2005-2007			
State:			
General Fund	$(2.6)	$7.0	$4.4
Non-General Fund	(4.3)	0.4	(3.9)
Total State	**$(6.9)**	**$7.4**	**$0.5**
Local Government	$(6.1)	$4.2	$(1.9)
Total Employer	$(13.0)	$11.6	$(1.4)
2004-2029			
State:			
General Fund	$(9.3)	$110.1	$100.8
Non-General Fund	(15.3)	5.8	(9.5)
Total State	**$(24.6)**	**$115.9**	**$91.3**
Local Government	$(21.8)	$66.2	$44.4
Total Employer	$(46.4)	$182.1	$135.7

**Represents the increase in funding expenditures for the members that are assumed to transfer from PERS to PSERS (not the total cost of PSERS).*

State Actuary's Comments:

Estimating the cost of a new retirement system with a high degree of accuracy is very difficult. The actual cost will be borne by the actual membership and actual experience of the plan in the future. Actual experience may vary from what is assumed in this fiscal note.

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2002 actuarial valuation report of the Public Employees Retirement System.

   We also relied upon demographic data compiled in the Washington City and County Employee 2003 Salary and Benefit survey for the development of costs for the local government job classes where individual PERS member data is unavailable at this time.

2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report or in the body of this fiscal note include the following:

   We relied upon comparable state agency data as an estimate for local government job classes where individual member data was unavailable.

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

5. This fiscal note is intended for use only during the 2004 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces:

- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all Plan 1, 2 and 3 members until the year 2024.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Harper, Laura

From: Harper, Laura
Sent: Thursday, October 20, 2005 4:53 PM
To: Patrick Jones (pjones@washingtonports.org)
Cc: Smith, Matt; Burkhart, Kelly; Tjersland, Ann
Subject: Port Commissioners

Attachments: Service Credit Purchses .pdf

Hi Pat. Thanks for your time this afternoon. As we discussed in our telephone conversation, I work for Matt Smith, the State Actuary. The Office of the State Actuary staffs the Select Committee on Pension Policy (SCPP). I contacted you today on behalf of the SCPP's Executive Committee.

The Executive Committee is seeking input from the Washington Public Ports Association (WPPA) on a matter of potential interest to the ports. Currently there is a proposal before the SCPP to change the port commissioner statute to allow certain individuals who served as port commissioners to purchase service credit in the Public Employees' Retirement System (PERS). The proposal involves a requested amendment to a port commissioner statute that has been in effect since 1975. The Executive Committee of the SCPP would like to hear from your organization with regard to this proposal. I have attached a PDF file that summarizes the issue in detail, and would be happy to answer any questions you may have regarding it.

I understand from our conversation that this matter must be taken up by the legislative committee of your organization. I will look forward to hearing from you when that has been accomplished, and I will provide the WPPA's response to the SCPP's Executive Committee when it becomes available. For your information, the current Chair of the SCPP (and its Executive Committee) is Representative Bill Fromhold. I have provided a copy of this e-mail to his legislative assistant, Ann Tjersland, for his information.

Thank you very much for your attention to this matter, and please let me know if I can be of further assistance.

Regards,

Laura

Laura Harper
Senior Research Analyst - Legal
Office of the State Actuary
360-786-6145

Service Credit
Purchses .pdf (...

The Washington Public Ports Association

Officers	Board of Trustees	Executive Director	Committees	Educational Foundation
Port Directory		Associate Members	Membership	Meetings and Seminars

What is the "WPPA"?

The Washington Public Ports Association (WPPA) is a nonprofit corporation established in 1961 to promote the interests of the port community through intergovernmental relationships between its member ports and other federal, state and local agencies, including the State Legislature. WPPA is recognized by the Legislature as the organizing agency for coordinating and harmonizing programs and operations of its member districts, and for submitting recommendations to the Governor and the Legislature.(Ch.53.06RCW)

The Association serves as the hub that networks all ports in a cooperative effort to share information and address issues such as our global economy, international trade and regional economic development. WPPA provides leadership on trade, freight mobility, environmental concerns and other issues related to port development, management and operation. The full-time WPPA staff of six supports tremendous participation in its activities by commissioners and staff of our port districts.

A Board of Trustees governs the affairs of the Association. The Board consists of one member from each port and meets twice yearly. Trustees are chosen by a majority vote of their respective port commissions. The Board of Trustees authorizes a six-member Executive Committee to oversee Association administration and management, and hires an Executive Director to manage day-to-day Association activities. Twelve standing committees help develop policies, plan meetings and training programs, and provide guidance on other issues. The President appoints committee chairs.

Official policies of the Association are discussed and voted upon democratically at two board meetings each year. Each member port has one vote through its trustee. WPPA membership is open to all port districts (69 ports currently are members), as well as individuals or businesses, after review by the Executive Committee. There are 110 non-voting Associate Members at this time.

What does WPPA do?

WPPA provides a variety of services to its members and to the public, including legislative advocacy, research, technical assistance, and educational seminars. Two major conferences each year provide opportunities for port officials to meet and share information.

The Association also serves as a clearinghouse of port information: technical assistance and research, statistical data related to port economic impacts, environmental studies, cargo forecasts and transportation needs, and public relations assistance and promotion.

In addition to these general programs and services, WPPA participates in a wide range of public policy issues and processes, including:

- **Government Relations** - legislative advocacy for port districts
- **Economic Development Policy** - involvement in state discussions about business climate, trade promotion, and funding critical infrastructure such as highways and rail lines
- **Environmental Policy** - development of policies to streamline cleanups of contaminated industrial land and harbors, prevent oil spills and improve salmon habitat
- **Aviation Policy** - promotion of policies to improve airport operations and facilities

WPPA publishes educational, informational and promotional materials, including:

- The **Port Directory**, which lists all member and non-member ports and associate members.
- The **Members Letter**, a monthly membership newsletter, which offers a quick summary of current port news and upcoming port-related events.
- The **Legislative Report**, which provides weekly updates during the Legislative session.
- The **Associate Member Resource Directory** that offers an overview of services provided by associate members.
- A **portable display** that can be used for public meetings, trade shows and other port-related events.
- A **slide and photo library** for us in educating various audiences about port district activity.

WASHINGTON PORTS

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Service Credit Purchases

(September 14, 2005)

Issue

There are two issues before the SCPP that relate to the topic of service credit purchases. The first is a request from two individuals for a legislative change that would authorize them to purchase service credit in PERS for time spent as port commissioners outside the Washington State Retirement Systems.

The second issue has broader implications and would involve expanding retirement plan provisions allowing the purchase of additional service credit, also known as "air time" (due to the fact that it is not based on actual service of any kind). Under such expansion, members of PERS, TRS, SERS, and PSERS could purchase up to five years of additional service credit at normal retirement for the purpose of increasing their retirement benefit (as opposed to being limited to purchases made at early retirement to offset the applicable actuarial reduction). A similar provision was adopted for LEOFF 2 during the 2005 legislative session.

Staff

Laura C. Harper, Senior Research Analyst/Legal
360-786-6145

Members Impacted

The port commissioner proposal has been narrowly constructed to allow PERS service credit for two individuals, although there could be a minimal number of others that would fall within the proposed legislative exception.

Expanding the use of additional service credit could conceivably affect all retirement eligible members of PERS, TRS, SERS, and PSERS.

Issue No. 1: PERS Service Credit for Port Commissioners

Current Situation

Port commissioners are elected members of the governing bodies of the ports. Since 1975 they have been unable to have their compensation considered salary for any purpose of any Washington State retirement system. Hence, they do not receive retirement system service credit for their time as port commissioners.

Port commissioners receive their compensation directly from the ports. For example, the Port of Tacoma pays an annual per diem and a salary. Today the total per diem for Port of Tacoma Commissioners is $8,400 per year ($70 per day with a maximum of 120 days). Each commissioner working for a port with gross operating revenues of $25 million or more (such as the Port of Tacoma and Port of Seattle) receives a salary of $500 per month. Thus, the maximum compensation a Port of Tacoma Commissioner receives in a year is $14,400 (salary plus per diem).

History

Since the passage of a 1975 statute, port commissioners have been unable to join PERS or have their compensation considered salary for any purpose of any retirement system created under the laws of the state. When the 1975 statute was passed, a grandfather clause allowed existing port commissioners to elect to become members of PERS prior to May 1, 1975. Since that time, port commissioners have been on their own in terms of retirement benefits.

The ports themselves may make retirement plans and other benefits available to port commissioners if they so choose. For example, the Port of Tacoma makes its deferred compensation plan as well as its retirement health savings plan available to port commissioners. The Port of Tacoma does not, however, provide its commissioners with any employer contributions for these plans.

Proposal

Attached is a letter to Senator Karen Fraser dated November 11, 2004, from two individuals who are proposing a legislative change to the port commissioner statute that would allow them to purchase PERS service credit for their time as port commissioners. The proposal is narrowly constructed to apply to members with very fact-specific situations. The legislative amendment to the port commissioner statute would allow service credit purchases only for individuals who meet all of the following eligibility requirements:

- currently an active member of PERS;
- became a port commissioner on or after May 1, 1975; and
- served continuously as a port commissioner until being elected or appointed to an eligible full or part-time position with another PERS employer.

The cost these members propose to pay for the service credit is the "total amount of both the employer and employee contributions that would have been made for that person's additional such service." The proposal does not involve a payment for interest and the member's payment would be significantly less than the actuarial cost to the pension plan for the increase in the member's benefit.

The proposal is unclear as to whether normal retirement system rules would apply when determining how much service credit can be purchased for time spent as a port commissioner, or whether the rules for calculating service credit would be more like those applicable to some other types of elected officials. The examples and estimated fiscal impacts described below assume that full PERS service credit would be earned for each year of service as a port commissioner.

Examples with Estimated Fiscal Impacts

Member O'Malley, one of the proponents of the legislative change, is a member of PERS 1. Under the proposal, it is estimated that he would be eligible to purchase 17 years of service credit for a member cost of about $260,000 and a net cost to PERS 1 of about $185,000. In other words, Mr. O'Malley would be paying for a little less than 10 years of service credit and would receive 17 years of service credit.

Years Purchased by O'Malley	Increase in PERS 1 Liability for Benefit Change	Offset for Member's Contributions	Net PERS 1 Liability
17	$445,000	$260,000	$185,000

Member McCarthy, another proponent of the change, is a member of PERS 2. It is estimated that he would be eligible to purchase 8.5 years of service credit for a member cost of about $75,000 and a net cost to PERS 2/3 of about $32,000. Mr. McCarthy would be paying for about six years of service credit and would receive 8.5 years of service credit.

Years Purchased by McCarthy	Increase in PERS 2/3 Liability for Benefit Change	Offset for Member's Contributions	Net PERS 2/3 Liability
8.5	$107,000	$75,000	$32,000

Note: Compensation for past service was not available and would have been much lower than the members' current salary. Current salary is the salary on which the retirement benefit for the past service would be based. Also, in order to estimate the fiscal impact of this proposal, the members' current salary was used as a proxy for interest on the past contributions for the period of lost investment earnings.

Policy Analysis

As mentioned above, this proposal is narrowly crafted. The advantage of crafting this statutory exception narrowly is that it limits its cost. The disadvantage is the appearance that this is special interest legislation intended to benefit particular individuals instead of a benefit change based on a deliberate shift in plan-wide retirement policy. If the proposal were passed as currently crafted, it could lead to additional requests to expand the benefit.

Port Commissioners have been outside the Washington State Retirement System for thirty years (since 1975). However, if the port commissioner statute were to be amended to allow for PERS service credit for port commissioners, the type of PERS service credit purchase that would be most comparable to the current proposal would be the type that is currently available to locally elected officials.

In PERS Plan 1, an individual elected to local (or state) office that receives any compensation in a month earns one month of service credit. In PERS 2/3, locally elected officials who were not PERS members while serving in elected office and who later become active members in non-elected positions may purchase credit for elected service, but are subject to specific rules regarding service credit accrual depending on when their service occurred, how much they earned, and how much they worked. Also, PERS members must pay the required employee and employer contributions for the previous term or terms of elected service **with interest** as determined by the Department of Retirement Systems (DRS).

It is unclear from the proposal how the specific rules applicable to service credit accrual would apply to member McCarthy, who is a PERS 2 member. If the SCPP were to agree with the legislative proposal in concept, it would be helpful to determine whether the proponents' intent is that affected individuals would be subject to existing DRS service credit accrual rules or whether special rules would be authorized and implemented to assure full service credit for all years served as port commissioners. Otherwise, there is a chance that Mr. McCarthy may not receive much service credit for his time as a port commissioner.

Stakeholder Input

The letter from the proponents to Senator Karen Fraser dated November 11, 2004, and its two attachments are included with this issue paper.

Executive Committee Recommendation

The Executive Committee recommended on August 23, 2005, that this issue be heard before the full SCPP. The decision before the Executive Committee at its next meeting is whether to propose legislation as requested by the proponents, or some modification thereof.

Issue No. 2: Expanding the Ability to Purchase Additional Service Credit

Current Situation

As of July 1, 2006, eligible members of the PERS, SERS, and TRS Plans 2/3 may, at the time of retirement, make a one-time purchase of up to five years of additional service credit. The service credit purchased would not need to correspond to any actual service within Washington, or any other retirement system, hence the term "additional service credit." The service credit is not membership service and cannot be used to qualify for retirement, but it can be used to increase early and alternate early retirement benefits by offsetting the required reductions for early retirement.

Under current law, only Plan 2/3 members who are eligible for early retirement or alternate early retirement may purchase additional service credit. The member pays the full actuarial cost of the service credit with a lump sum payment, eligible rollover, direct rollover, and/or trustee-to-trustee transfer from an eligible retirement plan at the time of retirement.

Currently the Plans 1 do not have provisions that authorize the purchase of additional service credit to offset early retirement reductions because there is no early retirement in the Plans 1. In the Plans 2/3, early retirement is available at age 55 with 20 years of service and alternate early retirement is available at age 55 with 30 years of service.

During the 2005 legislative session the LEOFF 2 Board's legislative proposal concerning additional service credit was successful. This bill differs from the provisions for the Plans 2/3 of PERS, SERS, and TRS in that up to five years of additional service credit is available to those eligible for normal retirement. The service credit purchased can be used to increase the member's benefits, but cannot be used for retirement eligibility. In other words, the member must already be eligible to retire in order to take advantage of this provision. The cost to the member is the actuarial equivalent value of the resulting increase in the member's benefit.

History

The ability to purchase additional service credit was added to the PERS and SERS Plans 2/3 during the 2004 legislative session as Chapter 172, Laws of 2004. The proposal was an outgrowth of the work of the public safety subcommittee that recommended the formation of the Public Safety Employees' Retirement System (PSERS), which becomes effective on July 1, 2006. This benefit was also given an effective date of July 1, 2006. It was intended to address those retirement system members who were not included in PSERS, but who might need to retire early due to stressful or dangerous jobs. Such individuals were thought to be members of either PERS or SERS. It was felt that these additional service credit provisions would provide a vehicle to, in effect, purchase a Plan 2/3 normal retirement when qualifying for early retirement.

The ability to purchase additional service credit was expanded to include the TRS Plans 2/3 by Chapter 65, Laws of 2005. The proposal was forwarded to the Legislature by the SCPP and created consistency with PERS and SERS 2/3. This bill also had an effective date of July 1, 2006. The LEOFF 2 Board's additional service credit purchase provision (which is described above) was implemented by the Legislature in Chapter 21, Laws of 2005 with an effective date of July 1, 2006.

Proposal

This proposal would expand the ability of members of PERS, SERS, TRS, and PSERS to purchase additional service credit as follows:

- Up to five years of additional service credit could be purchased at normal retirement to increase members' benefits.
- The service credit purchased would not be used for retirement eligibility.
- The member would pay the actuarial equivalent value of the resulting increase in the member's benefit.
- The cost of the service credit may be paid with a lump sum payment, eligible rollover, direct rollover, and/or trustee-to-trustee transfer from an eligible retirement plan at the time of retirement.

Estimated Fiscal Impact

There would be no fiscal impact from this proposal. The OSA assumes that this benefit proposal will not change future retirement behavior in the affected retirement systems. Existing members currently have access to private sector providers that offer products with similar annuities.

Policy Analysis

This proposal would be consistent with the LEOFF 2 legislation that passed in 2005. It would provide the opportunity for members of the various retirement systems to purchase a larger retirement benefit than they would otherwise receive, thus affording them additional flexibility for achieving their retirement goals. This option also promotes benefit adequacy throughout retirement by allowing members to, in effect, purchase a lifetime annuity while saving some of the costs associated with similar product offerings in the private sector.

Under this proposal, service credit cannot be used for retirement eligibility purposes. The service credit is purchased when the member already qualifies for normal retirement. Thus, the proposal does not alter plan policy with respect to when it is appropriate for members to retire. In that sense, this proposal can fit with a service-based plan design as seen in the Plans 1 as well as an age-based retirement plan design as found in the Plans 2/3.

It should be noted that there is no Plan 1/Plan 2-3 distinction in PSERS. In PSERS, normal retirement occurs when members reach age 65 with 5 years of service. Unreduced retirement occurs when members reach age 60 and 10 years of service and early retirement occurs when a member reaches age 53 with 20 years of service. Those retiring at age 53 are subject to 3 percent per year reduction in their benefit to reflect the difference between the number of years between age at retirement and the attainment of age 60. The provisions for additional service credit at early retirement were originally omitted for PSERS, as this plan already provided for unreduced retirement at age 60 with ten years of service. As stated above, allowing for the purchase of additional service credit at normal retirement would not alter the plan's policy with regard to when it is appropriate for members to retire. Thus, PSERS could be included within the scope of this particular proposal.

Because of the 60 percent benefit cap in the Plans 1, some Plan 1 members would not benefit from the ability to purchase this additional service credit. For example those Plan 1 members who have already accrued thirty years of service could not increase their final retirement benefit by purchasing additional service credit. Still, this provision could be useful to some Plan 1 members, as normal retirement occurs not only when members reach 30 years of service, but also when they have five years of service with attainment of age 60 or 25 years of service with attainment of age 55.

Plan 1 members who utilize this service credit purchase option would have a resulting increase in purchasing power, as the Uniform increase amount would apply to the additional years of service (unless the legislation excluded it). The additional cost associated with these cost-of-living adjustments would be included in the calculation of the member's actuarial cost.

Additional service credit or "air time" is a less conventional type of service credit, but is available for purchase in other states. The National Council on Teacher Retirement conducted a survey of air time practices in 2004, the results of which are attached at the end of this report. Most of the states allowing this type of service credit require that the member pay the actuarial cost of the increase in the member's benefit.

Executive Committee Recommendation

The Executive Committee recommended on August 23, 2005 that this issue be heard before the full SCPP. The decision before the Executive Committee at its next meeting is whether to propose legislation expanding opportunities for retirement system members of PERS, SERS, TRS, and PSERS to purchase additional service credit.

November 11, 2004

Senator Karen Fraser
417 John A. Cherberg Building
PO Box 40422
Olympia, WA 98504-0422

Dear Senator Fraser,

Thanks for adjusting your schedule. John and I appreciate the opportunity to discuss an issue regarding pension service credits as port commissioners prior to our becoming judges. We are seeking membership credit in the Public Employees Retirement System for time served as port commissioners. We propose to fund both our contribution and the the employers contribution.

Attached please find a copy of current legislation relating to port commissioner compensation (RCW 53.12.260) and a proposed amendment drafted informally by Bob Hauth, attorney for the Washington Public Ports Association.

After serving as port commissioners, we have served continuously in other county or state positions as defined in RCW 41.40.010. If approved, we would pay into the appropriate retirement fund the total amount of employee contributions for the additional service. We are currently enrolled in the PERS program. We are not enrolled in the old Judicial Retirement System. There are several reasons supporting this request: port performance, fairness due to unusual demands, public commitment, and minimal costs.

The demands made upon us were unusual for two reasons: First the Port of Tacoma revolutionized the transportation industry by creating and implementing a business model and operational concept called on –dock intermodalism. We invested over $100 million dollars to bring trains directly into container yards. Previously containers were moved repeatedly and trucked to rail yards from the docks. Our business model was far more efficient, but it involved huge risk. As the concept was embraced by the shipping industry, Tacoma became the fastest growing port in North America during our terms as commissioners; its ranking leaped from twenty second place in North America to fifth place today.

The demands placed upon us at the time were far beyond historical norms of commissioners, because we were dealing in unproven operating concepts involving millions of dollars and the future of the port. Despite being in uncharted waters we had only a brief window of opportunity and we had to seize to and run with our advantage before others would catch us.

In addition to the urgency of capitalizing our innovation, we faced second challenge-personnel. Due to retirements and recruitments, we had three successive CEOs in eight years and significant senior staff turnover. Commissioners were required to provide continuity with customers and stakeholders in an environment of dynamic change. Overall it was a highly unusual time, but a critical one.

The results are evident today. For example in 1980 container volume was less than 100,000 TEU (twenty foot equivalent units); by 1992 over one million containers were moved. In 2004 over 1.7 million container moves are projected. The value of trade passing through Tacoma in 1983 was $4.5 billion dollars. In 1983 the value was $20 billion. The direct result was a spectacular leap in employment locally and a boon to the state's economy.

While meeting the daily demands of the port John served as President of the Washington Public Ports Association and Pat was an executive board member of the Washington Council on International Trade, the Japan American Society and a China Relations Council.

The emergence of the Port of Tacoma and its success is the product of many hands; however we certainly contributed to the success enjoyed today.

There are equitable reasons to consider our request as well. All of the Port Commission members that we served with during the 1980's decade of growth received pension service credits for their time as Commissioners. The proposed legislation is drafted narrowly. The potential impact to the retirement system is slight, as we believe there are only two candidates that would qualify for this service credit.
Our dedication to public service is unbroken. John was elected to the Port Commission in November 1983 and resigned his position to become a judge in May 1992. Pat was elected to the Port Commission in January 1980 and resigned in January 1997 upon being elected to the county council. In January 2003, Pat resigned from the council and was sworn in as a District Court Judge.

Currently we are members of the PERS system and remain committed to public service. However after twenty-five years of public service, Pat has only 9.5 years of retirement service. After twenty years of public service, John only has eleven years of retirement service credits.

We thank you for your consideration on this issue. We welcome any suggestion on how to proceed. Please contact us for any questions or additional information.

Sincerely,

John McCarthy
5703 Pinnacle Court NE.
Tacoma, WA 98422
925-2191

Pat O'Malley
7812 Olmpic View Dr.
Gig Harbor, WA 98335
857-5119

From: "Bob Hauth" <hauth@owensdavies.com>
To: <jmccart@co.pierce.wa.us>
Date: 5/22/02 9:41AM
Subject: Possible pension catchup

MEMORANDUM

TO: Hon. John McCarthy,

FROM: Bob Hauth

DATE:

RE: Possible pension catch-up

As requested, here is some suggested language for a possible amendment to RCW 53.12.260. I have not done any current in-depth research but hope this language will fit into the statutory pattern and be acceptable. Note that I have made some changes and added a little to what I described in our telephone conversation.

(added at the end of the section)

and PROVIDED FURTHER, That notwithstanding any other provisions of this section, a current active member of the Public Employees Retirement System who became a port commissioner on or after May 1, 1975 and served continuously in that position until being elected or appointed to an eligible full or part time position with another employer as defined in RCW 41.40.010 may obtain membership credit in the Public Employees Retirement System for such additional service as a port commissioner by applying for such credit and paying into the appropriate retirement fund created pursuant to chapter 41.50 RCW the total amount of both the employer and employee contributions that would have been made for that person's additional such service .

If you need assistance in presenting this amendment, I will try to recommend someone. I do wish you the best of luck, and hope to see you at the next WPPA conference or sooner.

Incidentally, in the upcoming WPPA FINANCE AND ADMINISTRATION seminar (June 19 at the Shilo Inn at Ocean Shores) there will be a presentation on "Retirement System Options" at 1:15 p.m. It might be an opportunity for you to explore this subject. You probably have received the announcement but if not I'm sure WPPA would be happy to send you one directly, or I will.

RCW 53.12.260
Compensation.

(1) Each commissioner of a port district shall receive seventy dollars per day or portion thereof spent (a) in actual attendance at official meetings of the port district commission, or (b) in performance of other service in behalf of the district. The total per diem compensation of a port commissioner shall not exceed six thousand seven hundred twenty dollars in a year, or eight thousand four hundred dollars in any year for a port district with gross operating income of twenty-five million or more in the preceding calendar year.

(2) Port commissioners shall receive additional compensation as follows: (a) Each commissioner of a port district with gross operating revenues of twenty-five million dollars or more in the preceding calendar year shall receive a salary of five hundred dollars per month; and (b) each commissioner of a port district with gross operating revenues of from one million dollars to less than twenty-five million dollars in the preceding calendar year shall receive a salary of two hundred dollars per month.

(3) In lieu of the compensation specified in this section, a port commission may set compensation to be paid to commissioners.

(4) For any commissioner who has not elected to become a member of public employees retirement system before May 1, 1975, the compensation provided pursuant to this section shall not be considered salary for purposes of the provisions of any retirement system created pursuant to the general laws of this state nor shall attendance at such meetings or other service on behalf of the district constitute service as defined in RCW 41.40.010(9): PROVIDED, That in the case of a port district when commissioners are receiving compensation and contributing to the public employees retirement system, these benefits shall continue in full force and effect notwithstanding the provisions of RCW 53.12.260 and 53.12.265.

[1998 c 121 § 3; 1992 c 146 § 12; 1985 c 330 § 3; 1975 1st ex.s. c 187 § 1.]

Air Time Survey Results

State	System Name	Does your plan permit participants to purchase air time?	If so, what limits or restrictions are in place regarding the amount of time that may be purchased?	What is the cost basis of purchasing air time?	Other comments	Website info
AK	Alaska PERS					
AK	Alaska Teachers					
AL	Alabama RSA	No				
AR	Arkansas Teachers					
AR	Arkansas PERS	No				
AR	Arkansas Highways	No				
AZ	Arizona SRS	No				
CA	CalPERS	Yes	Members may purchase up to five years.	Actuarial equivalent	Just began the air time service purchase program a few months ago.	
CA	CalSTRS	Yes	Members with at least 5 years of service can buy up to five years of service	The member pays the actuarial equivalent of the resulting benefit enhancement	From the CalSTRS website: Purchased air time does not count towards qualifying for career-based enhancements such as the career factor, the longevity bonus and highest single year final compensation.	http://www.calstrs.com/Calculators/nonqualcalculator.aspx
CO	Colorado PERA	No				
CO	Denver Schools	No				
CT	Connecticut SERS					
CT	Connecticut Teachers					
DC	District of Columbia RS	No				
DE	Delaware State Employees					
FL	Florida RS	No				
GA	Georgia ERS					
GA	Georgia Teachers	Yes	Member must have 25 years of creditable to qualify and may purchase up to 3 years of air time.	Full Actuarial Cost	Members should purchase other types of eligible service prior to purchasing air time. If other service is purchased after the purchase of air time, TRS will bill the member for any additional actuarial cost.	
HI	Hawaii ERS	No				
IA	Iowa PERS	No				
ID	Idaho PERS	Yes	Maximum of 48 months	The law requires that the full actuarial cost be paid for the service either by the employee or the employer may pay some or all of the cost.	We provide only air time.	http://www.persi.state.id.us/html/generalinformation/POS_brochure.htm
IL	Illinois Municipal					
IL	Illinois SERS					
IL	Illinois Teachers	No				
IL	Chicago Teachers					
IN	Indiana PERF					
IN	Indiana Teachers					
KS	Kansas PERS	No				
KS	Wichita RS					

State	System Name	Does your plan permit participants to purchase air time?	If so, what limits or restrictions are in place regarding the amount of time that may be purchased?	What is the cost basis of purchasing air time?	Other comments	Website info
KY	Kentucky RS	Yes	Employees who were participating in one of the retirement systems administered by the KRS before 7/15/02 may purchase up to 5 years of nonqualified service once they have 15 years of total service, including service in other state retirement systems. Of those 15 years, five years must be in a system administered by KRS. The nonqualified service may not be used for benefit purposes until the employee has attained 20 years of service, excluding the nonqualified service. An employee cannot purchase partial years of non-qualified service.	Full Actuarial Cost	Non-hazardous members eligible to purchase air time may use this time to vest towards the 25 year requirement for reduced service retirement benefits or the 27 year requirement for unreduced service retirement benefits and to meet eligibility requirements for the high-three final compensation window. To see how the cost is calculated, you may wish to view this link from our web site	http://www.kyret.com/publications/purchasecalculation.htm
KY	Kentucky Teachers	Yes	A limit of five years with twenty years of active service, purchasable at full-actuarial cost.	Full-actuarial cost. If they acquire it prior to retirement, they pay an estimated amount, with the final amount to be determined at the actual time of retirement. At that time the member may owe more to the System, or may be due a refund pending on the circumstances of that member at the time of retirement.	Due to the cost, we have only a few takers that purchase a year or more of time, but we do have a good number of members that may need only a fractional year of service to meet retirement conditions and therefore are willing to pay the cost of say .05 years of service.	
LA	Louisiana SERS	No			Legislation to allow air time is being considered in the legislature	
LA	Louisiana Teachers	No				
MA	Massachusetts SERS	No				
MA	Massachusetts Teachers	No				
MD	Maryland SRS	No				
ME	Maine SRS	No				
MI	Michigan Municipal	No				
MI	Michigan Public Schools	Yes	5 years	an actuarial percentage of the member's highest previous compensation, determined by the member's age and years of service	We call air time "Universal Buy-in"	http://www.michigan.gov/ors
MI	Michigan SERS	Yes	5 years	an actuarial percentage of the member's previous highest compensation and the percentage is based on the member's age	We call air time "Universal Buy-in"	http://www.michigan.gov/ors
MN	Minnesota State Employees	No				
MN	Minnesota Teachers	No				
MN	Minnesota PERA	No				
MN	Minneapolis Teachers					
MN	Duluth Teachers					
MN	Minneapolis ERF					
MN	St. Paul Teachers					
MO	Missouri State Employees	No				

State	System Name	Does your plan permit participants to purchase air time?	If so, what limits or restrictions are in place regarding the amount of time that may be purchased?	What is the cost basis of purchasing air time?	Other comments	Website info
MO	Missouri Schools	Yes	A member may purchase up to 5/10 of a year of credit. Must be within 5 years of being eligible to retire.	Pays both ee and er contributions for highest salary on record times number of tenths being purchased. (Example: Salary of $40,000. One-tenth salary ($4,000) x ee and er contribution rate (21%) = cost for one-tenth ($840).	Statute calls it "supplemental time"	
MO	Missouri Local	No				
MO	Missouri DOT and Highway Patrol	No				
MO	St. Louis School Employees	Yes	General rules: Must have at least 5 years continuous credited service and 1 year for each year purchased. Must also buy the entire amount of credited service for which eligible in a given category, i.e., substitute service, out-of-district service, refund service, etc.	With two exceptions, all of our service purchase provisions are at actuarial value. The exceptions are (a) in-district refund service where the member reimburses refunded contributions with interest, and (b) up to four-tenths of a year but only if needed to retire where the member pays both employee and employer contributions with interest.	Besides the four-tenths of a year (see response to previous question– which is a state-wide provision), the only other air-time we permit is up to five years during which a member was involuntarily laid-off, provided the member returned to full-time service and did not take a distribution of his/her previous contributions.	
MS	Mississippi PERS	No				
MT	Montana PERS	No				
MT	Montana Teachers	Yes	Vested members (5 years) may purchase 2 years of air time for a break in service provided they have 1 year of creditable service following the break.	Participants who became members after 7/1/89 pay the actuarial equivalent. All others pay, for each year purchased, the combined ee and er contribution rates in effect when they are first eligible to purchase the service, multiplied by their first full year's salary following the break, plus interest to the date of payment.	Participants may elect to purchase air time through tax deferred payroll deductions, i.e., employer pickup.	
NC	North Carolina RS					
ND	North Dakota PERS	Yes	upon becoming vested in our plan, we allow individuals to purchase up to 5 years of air/generic service credit.	Actuarial equivalent		
ND	North Dakota Teachers	Yes	member must be an active participant with five or more years of earned service credit. The maximum amount of air time purchase is five years.	Actuarial equivalent	Very popular	

Air Time Survey Results

State	System Name	Does your plan permit participants to purchase air time?	If so, what limits or restrictions are in place regarding the amount of time that may be purchased?	What is the cost basis of purchasing air time?	Other comments	Website info
NE	Omaha Schools	Yes	After a member is vested (5 years), that member may purchase up to 5 years of service credit, in 1/2 year increments.	Actuarial equivalent	Once begun, the member has 5 years to pay the cost of that purchase. They may have payments deducted on a pre-tax basis, they may pay with after tax dollars, or they may roll pre-tax funds from other retirement vehicles. The purchase may be accomplished in multiple individual purchases over the extent of their working years (ie a member could purchase 2 years and then later purchase 1 more year and then prior to retirement purchase another 2 years, so long as the total service purchased is 5 years or less)	
NE	Nebraska RS					
NH	New Hampshire RS	No				
NJ	New Jersey RS					
NM	New Mexico PERA	Yes	Our statute allows for purchases of monthly increments up to a maximum of one year.	full actuarial present value	To buy air time, the member must first be vested in the system. Also, the period of time purchased cannot be used in the determination of final average salary. The purchase of air time combined with the purchase of other permissive service credit cannot exceed a total of five (5) years	
NM	New Mexico Teachers	No				
NV	Nevada PERS	Yes	Up to five years	Full Actuarial Cost		
NY	NY SLRS	No				
NY	New York City Teachers					
NY	New York City ERS					
NY	New York State Teachers					
OH	Ohio PERS	No				
OH	Ohio School Employees	No				
OH	Ohio Teachers	No				
OK	Oklahoma PERS	No				
OK	Oklahoma Teachers	No				
OR	Oregon PERS					
PA	Pennsylvania State ERS					
PA	Pennsylvania School ERS	No				
RI	Rhode Island ERS	No				
SC	South Carolina RS	Yes	Active members with five or more years of earned service credit may establish up to five years of nonqualified service.	An active member may purchase up to 5 years of nonqualified service credit at a cost of thirty-five percent of the member's salary or career highest fiscal year salary, whichever is greater, for each year of credit purchased.	We refer to air time in statute as nonqualified service. Opinion-it has been well-received by our members. Nonqualified service has been utilized extensively by our members to realize retirement objectives and by agencies implementing retirement incentive programs.	
SD	South Dakota PERS					
TN	Tennessee CSRS	No				
TX	Texas Municipal	No				
TX	Texas ERS					

Air Time Survey Results

State	System Name	Does your plan permit participants to purchase air time?	If so, what limits or restrictions are in place regarding the amount of time that may be purchased?	What is the cost basis of purchasing air time?	Other comments	Website info
TX	Texas Teachers	Yes	Members with seven years of earned service credit may purchase one, two, or three years.	Actuarial equivalent		http://www.trs.state.tx.us/Benefits/ServiceCredit_PurchaseMainPg.htm
TX	Texas County & District	No				
UT	Utah RS					
VA	Virginia Retirement System					
VA	Fairfax County Schools	No				
VT	Vermont RS					
WA	Washington State RS					
WI	Wisconsin Retirement System	No				
WV	West Virginia PERS					
WY	Wyoming Public Employees					

STATE OF WASHINGTON
DEPARTMENT OF RETIREMENT SYSTEMS
PO Box 48380 • Olympia WA 98504-8380 • (360) 664-7000 • Toll Free 1-800-547-6657

October 25, 2005

Charles Harkins
16801 Lakeside Drive
Spanaway, Washington 98387

Dear Mr. Harkins:

Thank you sharing your concerns about cost of living adjustments (COLA's) and gain sharing for retired teachers enrolled in Plan 1. Thank you also for your patience in our reply. Governor Gregoire has asked me to respond directly to you regarding your comments and questions.

I understand your concern about the increasing costs of living, especially as medical costs continue to escalate. We have received similar comments from other Plan I retirees and members about that plan's provisions for maintaining purchasing power.

The State of Washington sponsors a total of 14 different pension plans in 7 systems. Each of these plans are a reflection of the era in which they were created, often differing in provisions such as retirement age eligibility, disability retirement benefits, COLA's, etc. The PERS and TRS Plans I, for example, include a COLA that increases at a slower rate than the Plans 2, but a richer benefit package overall.

Changing the pension plans will always present a challenge because of the obvious cost impacts. The state legislature is the decision-making authority for changes to the plans such as the one you are suggesting. They created the Select Committee on Pension Policy (SCPP) three years ago to review all prospective changes to the plans and make recommendations. In addition to legislators, the Director of the Office of Financial Management (OFM) and myself, the SCPP includes individuals from groups such as the Washington Education Association to represent plan member interests and concerns.

The SCPP forwarded a proposal to the legislature during the last session for a permanent 20-cent increase to the Plan I uniform COLA. That proposal was not adopted by the legislature. Instead, the legislature requested the SCPP conduct a study about a comprehensive exchange of benefits in lieu of gain sharing. That study is to be completed by December 31, 2005.

Plans I COLAs are being discussed as part of this study. I am forwarding your letter and my response to the Office of the State Actuary (OSA) so that your concern can be registered again. You may want to take the additional step of contacting your legislators, as the legislature is the final decision-making authority. If you would like your legislators to know how you feel about this subject, you can do so by calling the legislative hotline at 1-800-562-6000. You might also consider contacting the Washington State School Retirees Association, an organization that actively advocates for retirees with the legislature.

Thank you again for sharing your concern. I hope I have provided you with new information that reflects that your concern has at least been heard, even if not yet addressed. If you have any additional questions, please do not hesitate to contact me at (360) 664-7312, or Dave Nelsen, Assistant Director, at (360) 664-7304.

Sincerely,

Sandy Matheson

Sandra J. Matheson
Director

cc: Governor Gregoire

RECEIVED

JUL 1 2 2005

Office of the Governor

Charles Harkins
16801 lakeside Drive
Spanaway, Washington 98387
253-537-9714
eaharkins@juno.com

Referred to DRS on 10/7.

July 7, 2005

Governor Christine Gregoire
P.O. Box 40002
Olympia, Washington 98504-0002

Dear Governor:

I wrote you in January 2005, but I didn't receive a reply. I know a new Governor has many obligations, so I will try again.

My January letter asked that as you put your 2005-06 budget together that you would give Teacher Retirees (Plan I) the same COLA as elected officials, state employees, your cabinet, etc. Active teachers, state workers, legislators, your cabinet and YOU all received raises. Plan I Teacher Retirees did not. Worse yet, the State took the 200 million that should have gone into the Plan I Retirement Fund and spent it on other "needs".

Did your salary increase come out of that 200 million - your cabinets? As usual Plan I Retirees were told, NO, there isn't enough money! The State took in 7% more this past year than the year before, but obviously not enough to give us a fair raise.

The Retirees negotiated in "good faith" with the State (SCPP) Committee. We thought we had a deal in which we would give up "Gain Sharing" in exchange for a guaranteed COLA formula. We gave up "Gain Sharing" and as far as I know we received nothing in return. I guess this leaves more money in the budget to fund other peoples COLAs. This is totally unfair.

I would like you or someone you appoint to compare Washington's Retiree pay, COLAs, medical allowances, etc. with the other 49 states. I would imagine that this information is already available to the Retirement Department. I would also guess that Washington is in the lower 50%. Look at when they get a COLA (in Washington it's not before 66), what is their COLA, when does it start?

Governor, the cost of living has gone up approximately 40-50% since I retired in 1991. I have received 3 - 4 % increase in all those 14 years. My check is actually much less since medical cost have steadily increased. My wife and I are served by Puget Energy. They routinely ask for rate increases and get them via the Washington Utilities and Transportation Commission. Part of these raises go to give annual raises to their employees. The Washington Ferry System gets increases to fund raises for their employees. This pattern is true no matter what you do for a living (carpenter, plumber, electrician, lawyer, doctor, etc. etc. When Teacher Retirees want a raise we must plead with the Governor and Legislature and the answer is usually NO or we receive less than a fair increase.

You frequently say how important the teachers are to the citizens of the State. I would think that this concept would apply to Retired Teachers as well. Retired Teachers could receive a fair COLAs for less that ½ of 1% of the State Educational Budget if our service to the children of the people of the State of Washington was valued as it should be.

Thank you,

Charles Harkins

Charles Harkins

Office of the Governor
Mail Stop: 40002
(360) 753-6780

REFERRAL DIRECTIONS*

Referred To: **Casey Rundquist - CRT Analyst/Writer**

Action: **Respond as you deem appropriate (letter, phone call, director signature, etc.) Please return the original letter, the referral sheet, and copy of reply to constituent services. If you have replied by email, please send us a copy of your reply by email.**

Comments: Questions and comments about Teacher Retirees (Plan 1) Benefits.

Referral Date: 7/13/2005 **DUE BACK: 7/27/2005**

Return To: Tracie Schaefer 902-0674 SMTP:tracie.schaefer@gov.wa.gov

* FOR COMPLETE DIRECTIONS REFER TO CITIZEN RESPONSE TEAM GUIDELINES.

CONTACT INFORMATION

From: Charles Harkins
16801 Lakeside Dr S
Spanaway, WA 98387
eaharkins@juno.com

Contact Date: 7/11/2005
Contact Type: Mail

Phone(s): Home 1 (253) 537-9714

Categories:	STATEGOV	
Batch: 0	BENE-RET	Log: 604680

TMS

Burkhart, Kelly

From: on behalf of Office State Actuary, WA
Subject: FW: SCPP Website

-----Original Message-----
From: Jeff Pearce
Sent: Wednesday, October 19, 2005 10:47 AM
To: Office State Actuary, WA
Subject: SCPP Website

Rule of 90:

I'm very interested in the Rule of 90 proposal and wonder what its current status is, and if it is stalled, if the SCPP intends to keep bringing it up until it passes.

Thanks.

++++++++++++++++++++++++
Jeffrey D. Pearce
Office of Human Resources
Everett Community College
++++++++++++++++++++++++

Burkhart, Kelly

Subject: FW: I AM A PUBLIC SCHOOL (HIGH SCHOOL) TEACHER IN SPOKANE,WASHINGTON. I BEGAN TEACHING IN ANOTHER STA

-----Original Message-----
From: Tjersland, Ann On Behalf Of Fromhold, Rep. Bill
Sent: Thursday, October 20, 2005 12:44 PM
To: Burkhart, Kelly
Cc: Smith, Matt
Subject: FW: I AM A PUBLIC SCHOOL (HIGH SCHOOL) TEACHER IN SPOKANE,WASHINGTON. I BEGAN TEACHING IN ANOTHER STA

I AM A PUBLIC SCHOOL (HIGH SCHOOL) TEACHER IN SPOKANE, WASHINGTON. I BEGAN TEACHING IN ANOTHER STATE IN 1969 AND HAVE TAUGHT EVERY YEAR SINCE, THE PAST 20 YEARS IN WASHINGTON.
AS I APPROACH THE AGE OF 60, I AM CONCERNED ABOUT MY ABILITY TO EFFECTIVLY CONTINUE FOR ANOTHER 5 YEARS. AS A PLAN 3 EMPLOYEE, I HAVE NO OTHER OPTION.
PLEASE CONSIDER SOME FORM OF RETIRMENT LEGISLATION THAT WOULD ALLOW MYSELF AND OTHERS WHO ARE IN THE SAME SITUATION TO RETIRE EARLY WITHOUT PENALTY. THANK YOU FOR YOUR CONSIDERATION,
JEFF REYBURN LEWIS AND CLARK HIGH SCHOOL

Burkhart, Kelly

Subject: FW: Rule of 90

From: Tjersland, Ann **On Behalf Of** Fromhold, Rep. Bill
Sent: Thursday, October 20, 2005 12:44 PM
To: Burkhart, Kelly
Cc: Smith, Matt
Subject: FW: Rule of 90

Dear Bill -

I understand that the Select Committee on teacher retirement is examining a MODIFIED RULE OF 90 in order to determine if a teacher in Washington State can retire without penalty. I am AGAINST the MODIFIED RULE OF 90 for a number of reasons that I won't detail here. My reasons are rooted in what is best for students and what is fair to teachers who have dedicated decades to our future generations. Needless to say, the MODIFIED RULE IS UNFAIR to many teachers.

I do believe that a TRUE RULE OF 90 would be a justifiable improvement to the states current teacher retirement system.

Please support TRUE 90!

Thank you.

Ray Carden - husband, father, teacher, taxpayer

Burkhart, Kelly

Subject: FW: Please Support

-----Original Message-----
From: Shelly Johnson
Subject: Please Support

Legislators:

Please support the "True Rule of 90" for teachers retirement. Please strongly consider putting forward legislation that provides a true rule of 90 to educators. We believe TRUE 90 is our best hope for getting at the age 65-retirement issue this upcoming session.

I am a teacher age 44 with 20 years of service. I am required to work an additional 21 years in order to retire with full benefits. (41 total)
This is unfair to me and my collegues when other plan 1 educators retired with 30 years at the age of 54. My husband is 53 years old, he missed the plan 1 retirement plan by 3 months because he started teaching in January on the plan 1 deadline year. His friends & collegues are all retired and he is looking at working another 12 years.

Please support the "True Rule of 90" for teachers retirement. This wouldn't make the retirement plans equal but it would at least improve the situation.

Shelly Johnson
6605 256th Street NE
Arlington, WA 98223

Burkhart, Kelly

Subject: FW: Teacher retirement

-----Original Message-----
From: Erik Ronning
Sent: Wednesday, October 19, 2005 3:48 PM
To: Fromhold, Rep. Bill; Fraser, Sen. Karen; Conway, Rep. Steve; Bailey, Rep. Barbara; Rep. Mulliken; Crouse, Rep. Larry; Pridemore, Sen. Craig
Subject: Teacher retirement

Dear members of the Select Committee on Pension Policy,

I am a high school teacher in the Stanwood-Camano School District in my 11th year of teaching. Please support the "True Rule of 90". We want to attract and keep quality educators in our state. A fair retirement policy is paramount to that end. Thanks for your support!

-Erik Ronning, SHS

Burkhart, Kelly

Subject: FW: Would you please put forwaed legislation that provides a truerule of 90 for educators and their ret

-----Original Message-----
From: Larry Jay
Sent: Thursday, October 20, 2005 2:01 PM
To: Fromhold, Rep. Bill
Subject: Would you please put forwaed legislation that provides a truerule of 90 for educators and their ret

Would you please put forwaed legislation that provides a true rule of 90 for educators and their retirement?

Sincerely, Larry Jay

Burkhart, Kelly

Subject: FW:

-----Original Message-----
From: Norman Schille
Sent: Thursday, October 20, 2005 3:59 PM
To: Fromhold, Rep. Bill
Subject:

The purpose of this writing is to inform you of my desire to have a fair retirement system. To me, a fair retirement system would be one that respects my service to our children and one that respects the needs of our children.

A true rule of 90 system would accomplish this goal. This system should include no limiting provisions designed to penalize educators who have put in a full career to help students meet today's standards.

It is very unrealistic to expect current teachers to work until the age of 65 with the expectations of today's system. Our students deserve educators who are strong to the finish.

Norm Schille

Burkhart, Kelly

Subject: FW: True Rule of 90

-----Original Message-----
From: Dean Lambert
Sent: Friday, October 21, 2005 7:01 AM
To: Fromhold, Rep. Bill
Subject: True Rule of 90

Dear Representative Fromhold:

As a hard-working Language Arts teacher in the Marysville School District I can tell you that it is important that we have a TRUE rule of 90. I began my teaching career after working in other occupations and after many years of expensive schooling. Considering that my wife is also a teacher, I may not be able to retire—ever—without a true rule of 90 (I'll be doing well if I can retire with it).

I offer a genuine thanks for considering this important issue,

Dean Lambert
English Department
MPHS

Burkhart, Kelly

Subject: FW: TRUE RULE of 90

-----Original Message-----
From: Jesica Thomson
Sent: Friday, October 21, 2005 1:53 PM
To: Fromhold, Rep. Bill
Subject: TRUE RULE of 90

Representative Bill Fromhold,

It is my desire for a TRUE RULE of 90, one that considers all service years and does not have a minimum age of 60. My years of service to Washington's children should count!

Jesica Thomson
Accelerated Reading Support Teacher
Eisenhower Middle School

Burkhart, Kelly

Subject: FW: Teacher Retirement

From: Darlene Strand
Sent: Saturday, October 22, 2005 9:17 AM
To: Fromhold, Rep. Bill
Subject: Teacher Retirement

Dear Rep. Fromhold,

I have served the students of Washington for the past 25 years. I ask that you and your committee please pass legislation that would create a "True Rule of 90" for teacher retirement. As you know this profession is very demanding and quite stressful at times. I missed Plan 1 by a couple of years. Therefore, our current status states that I must teach until I am 65 years old. I love teaching, but in my heart I know that I will not be able to do this job justice for another 18 years. I believe that anyone who has been a hard working tax payer for 30 plus years should be able to retire without being penalized in any way. Forcing us to teach up into our 60's is not good for us, it's not good for the students of this state, and it's not good for all those future teachers that are coming into the work force searching for these teaching positions. Please do the right thing and create a "True Rule of 90" for teacher retirement. Thank you for your time and consideration in this matter. :)

Sincerely,
Darlene Strand (A 3rd Grade Marysville Teacher)

Burkhart, Kelly

Subject: FW: retirement

-----Original Message-----
From: Cheri Cowley
Sent: Friday, October 21, 2005 6:51 PM
To: Fromhold, Rep. Bill
Subject: retirement

Dear Representative Fromhold:

I am a teacher in the Everett School District, and have been for the past 26 years. The possibility of having to teach until I am 60 or 65 before I can retire is a scary thought. I am writing to request that you support a TRUE RULE of 90, one that considers all service years and does not have a minimum age of 60. My many years of service to Washington's children should count! Thank you for your efforts to support this important proposal.

Sincerely,
Cheryl Cowley

Burkhart, Kelly

Subject: FW: True 90

From: Bob Houbregs
Sent: Wednesday, October 26, 2005 11:38 AM
To: Fromhold, Rep. Bill
Subject: True 90

Dear Representative Fromhold:
As a member of the Select Committee on Pension Policy you, in a sense, hold my fate in your hands. I am a high school teacher in Aberdeen, WA, who has been teaching for 20 years. I urge you and the committee to write a bill this year that will provide a true rule of 90 retirement option for educators in this state. When I hit 60 years of age (in 10 years) I will have been teaching high school for 30 years and feel I will have earned, and deserve, the option of a full retirement at that point in my career. Please take a stand for the dedicated and hard-working teachers of this state.
Thank you,
Bob Houbregs
Aberdeen High School

Burkhart, Kelly

Subject: FW: True rule of 90

From: Rodland, Barry
Sent: Thursday, October 27, 2005 8:17 AM
To: Fromhold, Rep. Bill
Subject: True rule of 90

Please strongly support legislation for a True Rule 90 for teachers' retirement and no minimum of 60 years old. I believe my years of service educating our children in this state should fully count toward retirement. (I wish my years in Oregon would count as well) Other states have True rules of 70 and 80 and we are losing good teachers who are moving to other states. Thanks for you support of our teachers in the state of Washington!!!!!

Barry Rodland

Burkhart, Kelly

Subject: FW: Gain Sharing Trade Off/True90

From: Cwoldies@aol.com
Sent: Thursday, October 27, 2005 8:23 PM
To: Fromhold, Rep. Bill; Fraser, Sen. Karen; Bailey, Rep. Barbara; Pridemore, Sen. Craig; Conway, Rep. Steve; Crouse, Rep. Larry
Subject: Gain Sharing Trade Off/True90

Ladies and Gentlemen:

As we all know,next Wednesday the gain- sharing subgroup will be meeting to create a proposal on the gain-sharing trade off that will be heard by the full committee in two weeks. As a Washington teacher in my 27th year, I am asking you to please propose a TRUE rule of 90, (with all prior service years considered and no age 60 requirement) as a fair and equitable trade off for the gain sharing benefit that TRS Plan 3 members currently receive . Obviously, since I have so many years of service in, not counting all those years of service would be a brutal trade off for the gain sharing benefit I currently have.Also, figures provided by the actuary reveal that trading True 90 for gain sharing would represent a savings of 31 cents on the dollar for the state. Finally, such an equitable trade off would benefit the students of Washington who are best served by an energetic teacher workforce. TRUE90 works for everybody. Teachers get to retire before age 65 without penalty. Students get instruction from people young enough to effectively communicate with them, and the taxpayer saves substantially.All parties win with TRUE 90.

Conrad Wold

Burkhart, Kelly

Subject: FW: Pension Gain Sharing

From: Davis Randy
Sent: Friday, October 28, 2005 8:52 AM
To: Fromhold, Rep. Bill; Fraser, Sen. Karen; Conway, Rep. Steve; Bailey, Rep. Barbara; Crouse, Rep. Larry; Pridemore, Sen. Craig
Subject: Pension Gain Sharing

10/28/05

Dear Ladies and Gentlemen,

Thank you for your efforts in working for better pension policy for the public employees in Washington State. I am a 47-year-old teacher who has taught in this state for 23 years. I am in TRS Plan 3 so I am looking at another 18 years before I can receive a defined benefit that is not penalized. Under this system, I feel like only my age matters and not my years of service to the children of Washington. I am sure there are many others in my situation that will be forced into staying in the classroom not for the good of the students but rather to increase their defined benefit. As I continue to research public pension plans around our country, I have found that TRS plans 2 and 3 are near the worst. We are just about the only state that has a system based entirely on age.

Fortunately, I see an opportunity for the Select Committee on Pension Policy (and the Legislature) to make a change. I have attended several committee meetings in recent months and the gain-sharing sub group sessions as well. It is obvious that a change is coming because of the costs to the state due to the gain-sharing benefit my plan currently contains. I chose to switch to Plan 3 mainly because of the gain sharing. It was my reasoning that this benefit could improve my defined contribution enough to allow me to retire at a more reasonable age. (No matter what anyone thinks age 60^+ teachers will not be good for Washington students.) Now, I see the possibility of this benefit disappearing. This action will most definitely cause a reaction by plan 3 teachers; it is up to you to offer a fair exchange for gain sharing.

A **True Rule of 90** would be a fair exchange. HB1324 was not a fair exchange for gain sharing. A **True Rule of 90** would include all years of service and would not contain an age 60 minimum. A **True Rule of 90** in exchange for gain sharing will be a savings for the State of Washington as it would save the state approximately 31 cents on the dollar. Teachers' years of service to the children of Washington State should count in a retirement plan. A **TRUE Rule of 90** is a wining proposal for all sides. Teachers get to retire before age 65 without penalty. Students get instruction from people young enough to effectively communicate with them, and the taxpayer saves substantially. All parties win!

A **True Rule of 90** for those in TRS Plan 2 and 3 is a more realistic and fair plan for employees working in a "high-energy" occupation. Please bring this proposal forward.

Sincerely,

Randy Davis

Sincerely,

<u>Teachers for Retirement Equity</u>:
Conrad Wold - Marysville SD
Tuck Gionet - Snohomish SD
Jim Stone - Edmonds SD
Richard Abrams - Stanwwod SD
Randy Davis - Marysville SD
& other TRS Plan 2 and 3 members

Burkhart, Kelly

Subject: FW: Gain Sharing / True Rule of 90

-----Original Message-----
From: Richard Abrams
Sent: Monday, October 31, 2005 10:38 AM
To: Fromhold, Rep. Bill; Fraser, Sen. Karen; Bailey, Rep. Barbara; Pridemore, Sen. Craig; Conway, Rep. Steve; Crouse, Rep. Larry
Subject: Gain Sharing / True Rule of 90

Legislators;

As a Washington teacher for the past 28 years and a member of the Plan 3 retirement system, I ask you to please propose and support a TRUE Rule of 90 (with all prior service years considered and no age 60 requirement), as a fair and equitable trade off for the gain sharing benefit that TRS Plan 3 members now receive. Figures indicate that trading True 90 for gain sharing would represent a savings of 31 cents on the dollar for the state. True 90 works for everyone, but especially for the students of our state. It is hard to attract and retain quality educators when they realize they will be teaching in the classroom until age 65 to obtain full benefits at retirement. Students will get instruction from young, energetic teachers, and the taxpayers will save. A True Rule of 90 works for everyone.

Thank you for your consideration.

Richard H. Abrams, Ph.D.

Burkhart, Kelly

Subject: FW: Legislators;

-----Original Message-----
From: Aaron Machart
Sent: Monday, October 31, 2005 10:37 AM
To: Bailey, Rep. Barbara; Conway, Rep. Steve; Crouse, Rep. Larry; Fraser, Sen. Karen; Fromhold, Rep. Bill; Pridemore, Sen. Craig
Subject: Legislators;

Legislators;

As a Washington teacher for the past 28 years and a member of the Plan 3 retirement system, I ask you to please propose and support a TRUE Rule of 90 (with all prior service years considered and no age 60 requirement), as a fair and equitable trade off for the gain sharing benefit that TRS Plan 3 members now receive. Figures indicate that trading True 90 for gain sharing would represent a savings of 31 cents on the dollar for the state. True 90 works for everyone, but especially for the students of our state. It is hard to attract and retain quality educators when they realize they will be teaching in the classroom until age 65 to obtain full benefits at retirement. Students will get instruction from young, energetic teachers, and the taxpayers will save. A True Rule of 90 works for everyone.

Thank you for your consideration.

Aaron Machart
School District Employee

Burkhart, Kelly

Subject: FW: TRUE RULE 90

From: Clare Sommers
Sent: Monday, October 31, 2005 11:29 AM
To: Fromhold, Rep. Bill; Fraser, Sen. Karen; mulliken.joyce@leg.wa.gov; Crouse, Rep. Larry; Pridemore, Sen. Craig
Subject: TRUE RULE 90

Please strongly consider putting forward legislation that provides a true rule of 90 to educators. We believe TRUE 90 is our best hope for getting at the age 65-retirement issue this upcoming session. Thank you for your consideration.

Sincerely, Clare Sommers
School Counselor, Highland Park Elem. and Eisenhower Middle School

Burkhart, Kelly

Subject: FW: PERS Plan 3 Gain Sharing - Select Committee on Pension Policy

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From: Virginia Southas
Sent: Tuesday, November 01, 2005 8:43 AM
To: Office State Actuary, WA; Fromhold, Rep. Bill
Subject: PERS Plan 3 Gain Sharing - Select Committee on Pension Policy

October 31, 2005

Representative Bill Fromhold – Chair
Select Committee on Pension Policy
PO Box 40914
Olympia, WA 98504-0914

Dear Representative Fromhold:

I have been a state employee for 25 years. In good faith I transferred from PERS Plan 2 to PERS Plan 3. The gain sharing provision of Plan 3 was an important part of my decision to transfer to Plan 3.

To the best of my knowledge, educational information provided to state workers did not include any indication that the State of Washington might not honor its gain sharing commitment to the workers who in good faith transferred to Plan 3. At best, this is a glaring error of omission.

In addition, the modified Rule of 90 is unfair to state workers who transferred to Plan 3 with 20 or more years of service at the time of transfer.

Please seriously consider supporting a full Rule of 90 for Plan 3 members . Anything other than this is very unfair to anyone who transferred to Plan 3 with as many years of service as I had at the time of transfer.

Very Truly Yours,

Tom S. Southas
PO Box 7357
Bellevue, WA 98008-1357

Burkhart, Kelly

Subject: FW: Plan 3 Gain Sharing

October 31, 2005

Representative Bill Fromhold - Chair
Select Committee on Pension Policy
PO Box 40914
Olympia, WA 98504-0914

Dear Representative Fromhold,

I am shocked to hear that the legislature is contemplating taking away gain sharing from PERS Plan 3 members.

I have been a dedicated state employer for over twenty years. The decision I made to transfer from PERS Plan 2 to PERS Plan 3 was a difficult one. However, in the end, the gain sharing provision in Plan 3 weighed heavy in my decision to switch plans.

At that time, I made a good faith effort to learn all I could about the pros and cons of switching, and to the best of my knowledge, the educational material presented, did not warn employees that this provision could be taken away at any time by the legislature. Rather, it was market conditions that would determine whether or not we would receive gain sharing. Had I been aware that the legislature would contemplate taking gain sharing away, I would not have switched plans.

Even today, the DRS web site that has educational material available to help new employees decide between Plan 2 and Plan 3, is silent to this fact. It seems odd to me that this important bit of information would not be fully and completely disclosed in the educational material. This appears to me to be a gross error of omission.

Recently, I learned that HB 1324 proposed to remedy the situation somewhat by instituting a modified rule of 90. This is blatantly unfair to members who have a significant number of years of service with the state.

If the legislature is indeed intent on moving towards eliminating Plan 3 gain sharing I ask that they provide an equitable remedy for Plan 3 members that have been harmed by this action. Please allow Plan 3 members to return to Plan 2, for no additional costs.

In the alternative, I ask that you provide a full rule of 90 benefit to Plan 3 members.

Thank you for your consideration in this matter,

Jim Carroll
7409 143rd Avenue NE
Redmond, Washington 98052

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Office of
The State Actuary

Good Morning, Ladies and Gentlemen:

I am an active TRS 3 high school teacher with 26+ years of experience who was in attendance at Wednesday's meeting of the Gain-Sharing sub committee. If you were not in that meeting but are a member of the larger Select Committee on Pension Policy, it will soon come to your attention that an opinion of the Attorney General was sought as to whether or not the state has any contractual obligation to continue to make gain sharing payments to Plan1 and Plan 3 teachers in the future. In brief, the AG's decision was that due to a sentence in the Plan 3 legislation, the state has the right to repeal gain sharing.

I would like to comment on this decision. While I have no doubt as to the AG's interpretation of what appeared to be pretty straightforward language, I submit to you that no teacher was provided with the statute at the time he/she was to make his/ her decision whether to transfer to Plan 3.Further, it took the AG's office more than 90 days to interpret the statute. Teachers aren't lawyers. Teachers were simply provided with the fundamentals of Plan 3, including the gain sharing benefit, by the IMARC Corporation, which was contracted by the state to administer the investment portion of the TRS 3 program. No mention was made by this state subcontractor that gain sharing could be removed at the whim of the state in the future. No teacher could have been expected to wade through the fine print of the RCW's to determine if the state reserved the right to screw us at some future date. No, we assumed that the company hired by the state to inform us was telling the whole truth.

So, now I must ask you, what are you going to do? Simply taking away gain sharing will save the state over $7 billion over the next 25 years, but it would be immoral to do this. First, it would be immoral because it keeps teachers in the classroom until they are 65. Ask yourself, how would you be at removing an unruly 17 year- old kid from class at age 65? Second, it would be immoral because it would be a nasty little trick, wouldn't it, taking gain sharing for nothing, and saying, "Too bad, you should've read the fine print!" Giving teachers a true or pure rule of 90 for gain sharing will still save the state $2billion over those same 25 years get AND get 65 year olds out of the classroom.

So what are you going to do? Members of the Gain Sharing subcommittee have seen so many numbers, bar-charts and monetary projections by this point they couldn't possibly have any need for further data. It really is about doing the right thing. If you have an opinion on this matter, please contact me by email. My email address is cwoldies@aol.com.

Hoping to hear from you,

Conrad M. Wold

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